# THE STATE TREASURER'S

# ANNUAL REPORT


**NORTH CAROLINA DEPARTMENT
OF STATE TREASURER**

*325 NORTH SALISBURY STREET
RALEIGH, NORTH CAROLINA 27603*

State of North Carolina
Department of the Treasurer

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The Honorable James B. Hunt, Jr.
Governor of North Carolina
Members of the General Assembly
Citizens of North Carolina

Sir, Ladies and Gentlemen:

This annual report, in keeping with past practice and the requirements of law, provides a full array of quantitative data and explanatory comments on the divisional operations and responsibilities of the Department of the State Treasurer.

In this issue's "In Perspective" we have elected to dwell entirely on the book, Reinventing Government, by David Osborne and Ted Gaebler, because there is little doubt that our governmental programs in North Carolina, like those of our national government, have indeed become excessively and unnecessarily "bureaucratized." In keeping with this premise, diligent studies have been invested in North Carolina's legislatively sponsored "Performance Review." The Review's objective: to "right-size" State government.

Our fear at this time is that the findings and recommendations of the highly touted independent auditors may well go unheeded—with little more than the consequent rhetorical extravagances too often found in the management of our governments at all levels. We say this because history has taught us that huge, impersonal, centralized government is seldom reversible. Historically, government grows, expands, and seldom ungrows, even when the originating purposes or program objectives pass. The fundamental imperatives of government, understandably, are political. Our unrelenting hope, therefore, is that we will not continue to squander valuable resources and political energies on "reinventing" government without a commitment to achieve the targeted changes and economies which have been well documented in the audit recommendations designed specifically for North Carolina.

Whether or not justified, there is the perception of a government mind-set that there are only two ways out of our continuing public crises: we can raise taxes, or we can cut spending. And yet, people do not want less education, fewer roads, or less health care. Neither do they want higher taxes. They want better education, better roads, and better health care for the same tax dollar.

As State Treasurer, my promise is that our own efforts shall continue. Naturally, we are proud of the role our Department has played over the years in the fiscal affairs of State government. This past year, in particular, was a year of dramatic accomplishments and we compliment and thank the men and women who have worked so diligently in making this record possible.

Sincerely,

Harlan E. Boyles

Harlan E. Boyles
State Treasurer

# Table of Contents


| | Page |
|---|---|
| LETTER OF TRANSMITTAL | 1 |
| TABLE OF CONTENTS | 2 |
| STATE TREASURER | |
| Table of Organization | 4 |
| In Perspective | 5 |
| INVESTMENT AND BANKING DIVISION | |
| Operational Highlights | 17 |
| The North Carolina Impact | 18 |
| Banking Operations | 18 |
| Serving as the State's Banker | 18 |
| Receiving State Moneys | 18 |
| Disbursing State Moneys | 19 |
| Specialized Banking Services | 20 |
| Investment Transactions Processing | 20 |
| Collateralization of Public Deposits | 20 |
| Electronic Funds Transfers | 20 |
| State Treasurer's Electronic Payments System (STEPS) | 20 |
| Payment of State's Debt | 20 |
| Cash Flow Calculations | 20 |
| Investment Management | 21 |
| Serving as the State's Chief Investment Officer | 21 |
| General Investment Objective | 21 |
| Operating Policy | 21 |
| Cash Management Program | 21 |
| Trust Funds Investment Program | 22 |
| The Investment Pool | 23 |
| Liquid Asset Fund | 24 |
| Short-term Investment Fund | 24 |
| Long-term Investment Fund | 26 |
| Equity Investment Fund | 27 |
| Venture Capital Investment Fund | 28 |
| Real Estate Investment Fund | 29 |
| Bond Proceeds Fund | 30 |
| Supplemental Income Program | 30 |
| STATE AND LOCAL GOVERNMENT FINANCE DIVISION | |
| Operational Highlights | 31 |
| Planning for the Future of North Carolina Local Government | 32 |
| The State of Tax-Exempt Financing | 35 |
| The Basic Functions | 35 |
| Debt Management | 35 |
| Fiscal Management | 38 |
| Significant Accomplishments | 38 |
| Debt Management | 38 |
| Installment and Lease Purchase Agreements | 38 |
| Hospital/Health-Care Financings | 38 |
| Capital Appreciation Bonds | 38 |
| Volume Cap Allocation | 38 |
| "Triple-A" General Obligation Bond Ratings | 39 |
| North Carolina Educational Facilities Finance Agency | 39 |
| North Carolina Clean Water Revolving Loan and Grant Funds | 39 |
| Special Obligation Bonds | 39 |
| Fiscal Management | 39 |
| Policies Manual Updated | 39 |
| Local Government Statistical Profiles Issued | 40 |
| The North Carolina Cash Management Trust | 40 |
| State Treasurer's Electronic Payments System (STEPS) | 40 |
| Review of Semi-annual Reports of Cash Balance | 40 |
| Financial Section of Bond Offering Statements | 40 |
| Analysis of Official Pronouncements | 41 |
| Instructional Support for Continuing Education Courses and Conferences | 41 |
| Audit Manual for Governmental Auditors | 41 |
| Audit Review Process | 41 |

Table of Contents (Continued) Page


Memoranda and Other Publications ... 41
State Treasurer's Governmental Accounting/Financial Management Awards Program ... 42
Review of Revenue Bonds ... 42
Projects in Progress ... 42
Policies Manual Update ... 42
Arbitrage Requirements for State Bonds ... 42
Guide to Note Disclosure ... 42
Analysis of Governmental Accounting Standards Board Pronouncements ... 42
Continuing Disclosure of Information ... 43
State Treasurer's Electronic Payments System (STEPS) ... 43
RETIREMENT SYSTEMS DIVISION
Operational Highlights ... 44
The Basic Functions ... 45
General Administration ... 45
Benefits Section ... 45
Accounting/Data Control Section ... 46
Retirees' Insurance ... 46
Direct Deposit Accounts/Address Changes ... 46
Batch Posting and Systems Transfers ... 46
Error Checking ... 46
Member Services Section ... 46
Records Section ... 46
Significant Accomplishments ... 46
Legislation ... 46
Communications ... 47
Functional ... 48
The Retirement Systems and Trust Funds ... 49
Actuarial Valuation ... 49
Actuarial Assumptions ... 50
Funding of the System ... 50
Funded Status of the Retirement Systems ... 50
Teachers' and State Employees' Retirement System of North Carolina (State System) ... 52
North Carolina Local Governmental Employees' Retirement System (Local System) ... 53
Consolidated Judicial Retirement System of North Carolina (Judicial System) ... 54
Teachers' and State Employees' Benefit Trust (Benefit Trust) ... 55
Firemen's and Rescue Squad Workers' Pension Fund (Pension Fund) ... 56
Retirees' Health Premiums Fund ... 57
Legislative Retirement Fund (Fund) ... 57
Legislative Retirement System (System) ... 57
Disability Income Plan ... 57
Public Employees' Social Security Agency (Social Security Agency) ... 58
National Guard Pension Plan (Guard Plan) ... 58
Supplemental Retirement Income Plan of North Carolina [401(k) Plan] ... 58
Registers of Deeds' Supplemental Pension Fund ... 59
Contributory Death Benefit for Retired Members ... 59
ADMINISTRATIVE SERVICES DIVISION
Operational Highlights ... 60
Departmental Services ... 60
Departmental Accounting ... 60
Investment Accounting ... 60
Retirement Accounting ... 60
Other Accounting Functions ... 61
Budgeting Operations ... 61
Technical Services ... 61
Personnel Mangement ... 61
Word Processing ... 61
Information Systems ... 61
Operations During the Year ... 62
Escheat and Unclaimed Property Program ... 62
What is an Escheat? ... 62
Recovery of Unclaimed Property ... 62
Refund of Unclaimed Property ... 63
Remittance to SEAA ... 63
Recent Developments ... 63
State Legislation ... 63
Federal Legislation ... 64
New Securities Custodian ... 64
Tangible Property Auction ... 64
Reciprocal/Exchange Agreements ... 64
FINANCIAL STATEMENTS TABLE OF CONTENTS ... A-1
STATISTICAL TABLES TABLE OF CONTENTS ... A-33

# North Carolina Department of State Treasurer

## Table of Organization

**Harlan E. Boyles**
Treasurer

**Thomas H. Campbell**
Chief Deputy Treasurer

Investment and Banking Division
**C. Douglas Chappell**
Deputy Treasurer and Director

State and Local Government Finance Division
**Robert M. High**
Deputy Treasurer and Director

Retirement Systems Division
**Dennis Ducker**
Deputy Treasurer and Director

Administrative Services Division
**James C. Moore**
Deputy Treasurer and Director

# IN PERSPECTIVE

The public's business is always an open issue. Thus, it is in this context that we have come to use this portion of the State Treasurer's annual report to address a few philosophical issues which we feel are worthy of public attention and discussion. The issues raised are from the perspective of the State Treasurer as an ex-officio member of various State boards and commissions; one who is in a unique position not only to see issues internal to government management and finance, but also to observe the close interrelationship between public sector management and private sector actions. The objective is, of course, to speak with constructive purpose.

State government is big business. State government is the people's business. It must be actively managed and it must be given leadership and direction for the State to remain strong. The people get the kind of government they are willing to accept. Change is inevitable.

## THE PURPOSE OF STATE GOVERNMENT

Within the bounds of the Constitution of North Carolina, the role and purpose of State government is determined by the General Assembly—men and women elected to represent the taxpaying public. The Assembly's adoption of the biennial budget gives meaning to the programs and services to be provided the people of North Carolina. The State budget does two other things: it identifies the resources to be collected, in the form of taxes and fees, and it sets the maximum expenditures authorized for the departments and agencies of State government. Under the Constitution, the expenditures authorized cannot exceed the projected resources.

Many of the challenges facing the State are reflected in the issues confronting State government and its management. The following sections offer a perspective from the State Treasurer.

## NORTH CAROLINA'S CHANCE TO BE ABOVE AVERAGE

Does it surprise anyone that the escalation in the cost of government, at all levels, has been both dramatic and alarming over the last half century? This has happened notwithstanding legitimate questions about commensurate value received.

The questions now being raised about the quality of today's leadership and direction have resulted in a multitude of academic studies and consultant recommendations. Few studies, however, have given a blueprint for a better tomorrow than Reinventing Government, by David Osborne and Ted Gaebler. Together they have collaborated to offer elected officials a vision and road map to a bold transformation of America's bureaucratic governments. Their ideas and solutions offer much hope for the people of this nation—if our decision makers will move aggressively to commit business and modern management technologies to the proprietary government services now rendered through collective action.

Would anyone dare ask if we in North Carolina might benefit from the works of Osborne and Gaebler? Should those of us in State government risk asking the taxpayers of North Carolina? The simple answer is that unless some dramatic changes take place in the future direction of State and local government in North Carolina, we will have committed a gross disservice to our people. We will continue to transfer vast resources from other economic needs to subsidize extravagant, unnecessary and wasteful activities—activities and programs now entrenched in our ineffective and inefficient State and local governments. Do we want to continue to squander enormous amounts of money, labor and materials that could be put to better personal use by the taxpayers themselves?

Reinventing Government is for those who know something is wrong with their governments, at all levels, but have watched those in power endeavor to solve the problems of government by spending more or by spending less. The people now realize that neither traditional liberalism nor traditional conservatism has relevance today. The fundamental issue today is not too much government or too little government. To be more precise, the issue is effective and efficient "governance."

Our objective here is to review, with liberal editorial adaptations, the contents of Reinventing Government and to report on some of the findings and recommendations of its authors—because we believe indeed that there are fundamental and critical insights to be gained from their research, all for the betterment of State and local government in North Carolina.

## ROWING AND STEERING

The word government is from a Greek word, which means "to steer." The job of government is to steer. Delivering services is "rowing."

In state and local governments, where budgets have to balance, we have learned that we can steer more effectively if we let others do more of the rowing. Steering is very difficult, however, if an organization's best energies and resources are devoted to rowing.

Governments that focus on steering make more policy decisions. They put more social and economic institutions into motion. Rather than hiring more public employees, they make sure other institutions are delivering services and meeting the community's needs. In contrast, governments preoccupied with service delivery often abdicate this steering function. Public leaders who get caught on the tax-and-spend treadmill have to work so hard to keep their service systems together—running faster and faster just to stay in the same place—that they have no time left to think about steering.

## TODAY'S GOVERNMENT

Cynicism about today's government runs deep among the American people. Our government leaders still tell us that there are only two ways out of our continuing public crises: we can raise taxes, or we can cut spending. And yet, people do not want less education, fewer roads, or less health care. Neither do they want higher taxes. They want better education, better roads, and better health care for the same tax dollar.

For the past 50 years, most public leaders have been chained to the wagon of taxes and services. This was acceptable as long as tax revenues were rising; but when economic growth slowed and fiscal crisis hit, the equation changed.

The kind of governments that developed during the industrial era, with their sluggish, centralized bureaucracies, their preoccupation with rules and regulations, and their hierarchical chains of command, no longer work very well today. They may have accomplished great things in their time, but somewhere along the line they have gotten away from us. They have become bloated, wasteful, and

ineffective. And, when the world began to change, they failed to change with it. Centralized bureaucracies simply do not function well in a rapidly changing information-rich, knowledge-intensive society and the world economy of today.

When our nation's political parties were stronger, oftentimes they could overcome government spending pressures. Now that the political parties are weak and ineffective, legislators operate largely as individuals, raising their own money and rising or falling on their own reputations and voting records. There is little incentive for legislative bodies to look beyond the short-term spending interests of constituents—and to the overall welfare of all citizens.

**Rowing Doesn't Work With the Growing Problems and Challenges**

Think of the problems facing the American society today: drug use, crime, poverty, homelessness, illiteracy, toxic waste, the specter of global warming, and the exploding costs of medical care. Perhaps the only public system in worse shape today than education and health care is criminal justice. Since 1960, violent crime has increased more than 12 times faster than our population. Yet, the system is all but bankrupting state and local governments. Our governments simply hire more public employees to staff the assembly line: more cops, more court officials, more prison guards. We just shovel more money into the system, as the inputs—that is, the number of crimes, the number of cases, the number of inmates—rise.

Think also of the challenges facing our governments today: a health care system in crisis; an environment threatened as never before; a global economy in which American workers need dramatically better education and training throughout their careers; an ineffective public education system; and, a changing family structure that makes quality child care a necessity.

While entrepreneurial government could conceivably show us the way, few of our elected leaders are listening—they are too busy climbing the rungs to their next office. They remain trapped in old ways of solving problems and blind to solutions that lie right in front of them.

Our governments must, instead, use their immense leverage to structure an economic marketplace, so that millions of businesses and individuals have incentives to meet our health care, child care, job training, and environmental needs.

**Steering is the Means to Address Our Problems**

Governance is the process by which we collectively solve our problems and meet our society's needs. Government is the instrument we use.

It is one of the enduring paradoxes of American ideology that we attack private monopolies so fervently but embrace government monopolies so warmly. Democratic governments exist to serve their citizens. Businesses exist to make profits. And, while most businesses search obsessively for new ways to please their customers, most American governments are customer-blind. That's because most public agencies do not get their funds from their customers. Instead, public agencies get most of their funds from legislatures. People today want to be valued as customers—even by government. And yet, traditional public institutions still offer one-size-fits-all services.

Waste in government does not come tied up in neat packages. It is embedded in the very way we do business. It is people working hard at tasks that aren't worth doing, following regulations that never should have been written, filling out forms that never should have been printed. To melt the fat, we must change the basic incentives that drive our governments. We must turn bureaucratic institutions into entrepreneurial institutions, willing to do more with less, and eager to embrace new ideas. Campaign finance reform and the revitalization of the political parties are obviously two preconditions to recapturing ownership of our governments.

While confidence in government has fallen to record lows, there is hope. Slowly, quietly, far from the public spotlight, new kinds of public institutions are emerging. They are lean, decentralized, and innovative. They are flexible, adaptable, and quick to learn new ways when conditions change. They use competition, customer choice, and other non-bureaucratic mechanisms to get things done as creatively and as effectively as possible.

Many government agencies perform increasingly complex tasks, in competitive, rapidly changing environments, with customers who want both quality and choice. Entrepreneurial governments have discovered that when service providers must

compete, they keep their costs down, respond quickly to changing demands, and strive mightily to satisfy their customers. Competition drives us to embrace innovation and to strive for excellence.

## PROGRAM MANAGEMENT

Governments and businesses are fundamentally two different institutions. Again, businesses get most of their money from their customers who can choose to buy or not; governments get most of their money from taxpayers who may not choose whether or not to pay. Businesses are driven by competition; governments use monopolies. This is one reason why the public focuses so intensely on the amounts spent on government services, exercising a constant impulse to control—to dictate how much the bureaucrats spend on every item, so they cannot possibly waste, misuse, or steal the taxpayers' money.

It is a simple truth that "one-size-fits-all" services are not up to the challenges of a rapidly changing information society and a knowledge based economy.

### Rowing Brings About Programs Not Needed, Not Integrated and Inefficient

Programs are regularly offered to individuals who may not want or who are not prepared to use them effectively. There is a constant pressure to make government programs all things to all people.

Most of the money we spend on the poor—welfare, food stamps, Medicaid, public housing, housing vouchers, child care—tends to reward failure, because it goes primarily to those who remain poor. The majority of legislators and government officials have no idea which programs they fund are successful and which are failing. When they cut budgets, they have no idea whether they are cutting muscle or fat. Lacking objective information on outcomes, they make their decisions largely on political considerations.

For decades the American society has embarked on a gigantic effort to "control" what goes on inside government—to keep the politicians and bureaucrats from doing anything that might endanger the public interest. In solving one set of problems we often create another. In making it difficult to steal the public's money, we have made it virtually impossible to make that money work effectively for the taxpayers.

When we think of government, the word that automatically comes to mind is "program." When legislatures add new programs year after year, each with its own perfectly logical rationale, the result is an unintended hodgepodge of old and new. When government programs fail, their managers are often the last people to know, because they don't measure results. Typically, they use numbers to promote their program, not to manage it. The top-down, command-and-control mentality used to get things done. It was developed in a society of people who worked with their hands, not their minds.

When combined with voters' refusal to pay higher taxes—in part because global competition is also driving the average standard of living down—this new pressure demands different behavior by government. Suddenly there is less money for government—for "doing" things, delivering services. In many ways, we have outgrown our governments. Each region has integrated needs—for public transit, for water and sewer systems, for solid waste treatment, for economic development. But few states have moved to integrate their state and local governments. Today, information is virtually limitless, communication between remote locations is instantaneous, many public employees are well-educated, and conditions change with blinding speed.

### Steering Brings Programs That Are Needed and Measurable

The objective of government is to "buy" a defined level of service—a defined level of quantity and quality. This means that a modern management

system must be mission driven and results oriented. The desired outcome of most services is satisfied customers. Quality is determined only by customers. Few people in government ever use the word *customer*.

Most entrepreneurial governments promote competition between service providers. They empower their citizens by pushing control out of the bureaucracy and into the community. They measure the performance of their agencies, focusing not on inputs but on outcomes. They are driven by their goals—their missions—not by their rules and regulations. They redefine their constituents as customers and offer them choices—between schools, between training programs, between housing options. They prevent problems before they emerge, rather than simply offering services afterward. They put their energies into earning money, not spending it. They embrace participatory management. They prefer market mechanisms to bureaucratic mechanisms. And, they focus not simply on providing public services, but on catalyzing all sectors—public, private and voluntary—into action to solve their community problems.

Governments today—under intense pressure to solve problems without spending new money—must look for the best method they can find, regardless of which sector it involves. There are very few services traditionally provided by the public sector that are not today provided somewhere by the private sector and vice versa. To most people, competition between garbage collection firms seems only natural. Competition in road construction, in health care, even in public transit, seems like nothing more than common sense.

Fiscal conservatives have long argued that governments should turn over many of their functions to the private sector—by abandoning some, selling others, and contracting with private firms to handle others. Services can be contracted out or turned over to the private sector. And yet, where private service providers do not have to compete they may be as inefficient as public monopolies. Competition rewards innovation; monopoly stifles it.

## EMPLOYEE MANAGEMENT

Too often politics focuses on perceptions and ideology, not performance. The rules of government are often aggregated into systems—budget systems, personnel systems, purchasing systems, accounting systems. If leaders tell their employees to focus on their mission, but the budget and personnel systems tell them to follow the rules and spend within the line items, the employees will listen to the systems. By fencing money into line item budgets, we waste billions of dollars every year. Most public managers probably know where they could trim 10 to 15 percent of their budget. Yet, most budget systems actually encourage public managers to waste money.

Organizations can solve their problems most effectively if the employees get involved in crafting the solutions. The employees know the system best, and they know where the problems lurk. Unfortunately, most governments have held tight to the reins. Their message has not changed: follow orders—don't use your heads, don't think for yourself, and don't take independent action.

### Rowing in Personnel Systems Keeps Employees From Doing Their Best

Managers and employees alike are greatly limited by the systems government has in place. Managers in civil service systems cannot hire like normal managers: that is, advertise a position, take resumes, interview people, and talk to references. The pay for civil service jobs is determined by the longevity system, not performance. Promotions are controlled by the personnel system, not the manager. The result is a system in which managers cannot manage, where poor performers are kept on, and morale goes through the floor.

The people who work in government are not the problem; the systems in which they work are the problem. Only fifteen percent of the problems in most organizations are caused by the workers and managers involved. The other eighty-five percent stems from the broader systems within which these people work—the education system, the budget system, the personnel system, and so on.

**Steering Empowers Managers and Employees to Change the Systems to Make Organizations Better**

Some organizations link pay to performance. Others use performance information primarily as a management tool, with which to continually improve their operations. Performance pay may give people an incentive to improve performance, but it does not give them the authority or the tools to change the systems that lie behind their problems. Manufacturing businesses that embrace participatory management insist that it typically increases their productivity by thirty to forty percent. As an example, in residential communities, we know that owners take better care of homes than renters. In private business, we know that workers who own a piece of the company are more committed than those who simply collect a paycheck. It stands to reason that when communities are empowered to solve their own problems, they function better than communities that depend on services provided by outsiders.

Entrepreneurial governments have begun to shift to systems that separate policy decisions from service delivery. Many employees in bureaucratic governments actually feel trapped. When they have the opportunity to work for an organization with a clear mission and minimal red tape they are often reborn. When they are moved into the private sector, they often experience the same sense of liberation. Competition boosts the pride and morale of public employees. Most of us assume that public employees suffer when they have to compete. Governments can easily guarantee their employees a job, without guaranteeing the job they currently hold. Once public employees find themselves in competition—and if their job security is not at stake—they enjoy it.

Public employees do not have to be the scapegoats for entrepreneurial government. No one wants to innovate themselves out of a job, obviously. But when employees know they have job security, their attitude toward innovation changes dramatically. Most governments lose 10 percent of their employees every year, so attrition often creates room for flexibility. The total number of jobs created by governments would not likely change; the jobs are simply shifted to private firms and community organizations.

Rule driven organizations stifle innovation. Mission driven organizations turn their employees free to pursue the organization's mission with the most effective methods they can find. How do we create mission driven governments? The first task is to scrape off the dead weight of accumulated rules, regulations, and obsolete activities. Entrepreneurial leaders do away not only with obsolete regulations, but with obsolete programs. No one can say how much lower our personnel costs could be with a rational mission driven system, but 20 percent is not an outlandish guess.

In today's world, things simply work better if those working in public organizations—schools, public housing, parks, training programs—have the authority to make many of their own decisions. When managers entrust employees with important decisions, they signal their respect for those employees. This is particularly important in organizations of knowledge workers. If we are to tap the skills and the commitment of development specialists, teachers, and environmental protection officers, we cannot treat them like industrial workers on an assembly line. Not "command and control" but "conferring and networking" become the mandatory modes for getting things done.

## BUDGET ADMINISTRATION

To repeat, the impulse to control is embedded in virtually every set of rules by which government operates: the budget system, the personnel system, the procurement system, and even the accounting system. No doubt, every rule was originally laid down with the best of intentions. The cumulative effect is gridlock.

Most governments have no idea how much it costs to deliver the services they offer. Even if they can give you a budget figure for each service, it typically excludes indirect costs, such as administrative overhead, capital costs, and employee fringe benefits. Only 4 percent of state and local governments know the direct cost of each service

they provide, and only 2 percent know the total cost of each service they provide. Only 10 percent can even tell you what services they provide!

Government is famous for its endless figures and forms. This notwithstanding, most of the number crunching is focused on inputs: how much is spent, how many people are served, and what service each person received. Very seldom does the information produced and released focus on outcomes, or results.

**Rowing Wastes Money**

The traditional government budget encourages managers to waste money. If they don't spend their entire budget by the end of the fiscal year, three things happen: they lose the money they have saved; they get less next year; and the budget director scolds them for requesting too much last year. Hence, the time-honored government rush is to spend all funds by the end of the fiscal year. By allowing departments to keep their savings, the objective is to encourage managers to save money; to get them to think like owners, and ask: "If this were my money, would I spend it this way?"

Businesses don't care as much about the spending side of the ledger as the earning side: they will spend whatever is necessary to maximize their returns. But governments look only at the spending side. They postpone spending on road repairs until the road has to be rebuilt, at three times the cost of simple resurfacing. The only thing more destructive than a line item budget system is a personnel system built around civil service. In business, personnel is a support function, to help managers manage more effectively. In government, it is a control function.

If government managers cannot keep any of their earnings, they are not likely to pursue them. If managers' budgets are supplied regardless of whether their departments earn anything, they are not likely to spend time trying to make money. If we want government managers to think like entrepreneurs, we have to give them incentives to do so. In most governments, few people outside the finance and revenue departments even think about revenues. Can we imagine the creativity in government if its employees thought as much about how to make money as they do about how to spend it? Bureaucratic, unresponsive, one-size-fits-all government cannot last. The tax revolt is here to stay.

Our governmental budgeting system is "future blind." In an age when change comes with frightening rapidity, future blindness is a deadly flaw.

**Steering is Results Oriented, Cost Effective Governance**

In government, the most important lever—the system that drives behavior most powerfully—is the budget. Results oriented organizations find that they ultimately need to develop budget systems that fund outputs and outcomes. An output is a measure of the volume of something actually produced; an outcome is a measure of quality and results.

Many of our nation's counties and cities have adopted radically new budget systems, which allow managers to respond quickly as circumstances change. These systems eliminate all line item budgets—freeing departmental managers to move resources around as needs shift. They also allow agencies to keep what they don't spend from one year to the next, so they can shift unused funds to new priorities.

Freeing policy managers to shop around for the most effective and efficient service providers helps them squeeze more out of every dollar. It allows them to use competition between service providers. It preserves maximum flexibility to respond to changing circumstances. And it helps them insist on accountability for quality performance: contractors know they can be let go if their quality sags; civil servants know they cannot. Contracts are rewritten every year. Contracts can be changed. You cannot change with public employees who have all sorts of vested rights and privileges.

Mission driven budgets give every employee an incentive to save money. Mission driven budgets free up resources to test new ideas. Line item budgets trap resources into old patterns. Those who rail against "waste, fraud, and abuse" should think again. The control mechanisms they support make waste inevitable. Because they don't measure results, bureaucratic governments rarely achieve

them. They spend ever more on public education, yet test scores and dropout rates barely budge. They spend ever more on job training for welfare recipients, yet welfare rolls continue to grow. They spend ever more on police and prisons, yet crime rates continue to rise.

Entrepreneurial governments rely on information about the results of government spending—the cost and quality of government programs. By carefully measuring results, entrepreneurial organizations can minimize the need for rules. Mission driven budgets save millions of dollars on auditors and budget officers. Mission driven budgets relieve legislators of micro management decisions, freeing them to focus on the larger problems they were elected to solve.

Pressed hard by the tax revolts of the 1970's and 1980's and the fiscal crisis of the early 1990's, entrepreneurial governments are increasingly searching for nontax revenues. They are measuring their return on investment. They are recycling their money, finding as much as 15 to 20 percent that can be redirected. Perhaps the safest way to raise nontax revenue is simply to charge fees to those who use public services. The average local government (not counting school districts) raises more than 25 percent of its revenues from user fees. What is fairer than a system in which those who benefit from a service and can afford to pay for it do so, while those who don't benefit don't have to pay? User fees have two advantages: they raise money, and they lower demand for public services. Both help balance government budgets.

In the private sector, innovative companies have two separate budgets: an operating budget and an innovation budget. In most governments, managers can raise innovation capital only by securing an extra appropriation from the legislature—a very difficult process. A mission driven budget allows managers to accumulate savings, which they can use as seed capital. Another approach might be a loan pool against which managers can borrow, up to a certain limit. By requiring repayment, it will also force managers to think like investors. They can secure investment capital only if they have some prospect of generating a return. Enterprise funds create powerful incentives to make money. If we want public employees to become "revenue conscious," we need incentives that encourage them to make money as well as to spend it. Guaranteed incomes create all the wrong incentives.

What is needed is a policy and an evaluation technique which can be routinely applied to each request for service initiation, continuation, or expansion. How can one measure the return on an investment if one doesn't even know how much that investment costs? How can one even establish an appropriate subsidy if one doesn't know the cost of a service? An enterprising government exposes its subsidies to public light, and relies on public pressure to do away with them.

## PUBLIC EDUCATION

Public education is the only industry we have where, if you do a good job, nothing good happens to you, and if you do a bad job, nothing bad happens to you. And, too, America is the only major developed country in which there is no competition within the school system. Students don't choose; parents don't choose; and, schools don't compete for their customers. Studies have agreed that there is no correlation between spending on education and how much students learn. In education, we reward failure. If you're failing, you qualify for aid. If you're doing well, then you lose the aid.

Schools of choice have lower dropout rates, fewer discipline problems, better student attitudes, and higher teacher satisfaction. Gallup polls show that the percentage of adults who believe parents should be able to choose the public schools their children attend increased from 12 percent in 1980 to 62 percent in 1990.

### Rowing Keeps Education From Excelling

In public education, after years of major reform efforts and billions of dollars in new money, test

scores are stagnant and dropout rates are higher today than they were in 1980. The traditional factors we often emphasize—teacher salaries, per pupil expenditures, class size, graduation requirements—have no quantifiable impact on school performance. Instead, the keys are parental control, the clarity of the school's mission, strong leadership, and the degree of freedom and respect offered the teachers.

Why do educators in traditional schools continue to insist, by their actions, that all students are the same, learn at the same rate, and learn best in the same manner? The real issue in school reform, then, is: how do you provide autonomy and still hold schools accountable?

Traditional public education is centralized, top-down, and rule driven; each school is a monopoly; customers have little choice; and no one's job depends on their performance. It is a system that guarantees mediocrity, not excellence. We still organize school calendars as if children were needed on the farm all summer. We still schedule the school day as if Mom will be home at 3 p.m. And we still put teachers in front of rows of children, primarily to talk. We know based on research that people remember about 10 percent of what they hear, 20 percent of what they see, 40 percent of what they discuss and 90 percent of what they do.

Business leaders rarely focus on the incentives built into the education system. Instead they create "partnerships" and sponsor projects. Businesses should be tougher. When approached for support, executives should ask the central question: "If these things are so important, why aren't they important enough for the system to do itself? Why are they done only when we finance them?" If businesses were thinking strategically, they would be helping to see that the schools get opportunities and incentives to innovate on their own.

**Steering Brings Competition, Accountability, and Ultimately Excellence in Education**

A time will come when people won't believe that parents once could not choose the public schools their children attended. When governments fund individuals rather than institutions, it is much easier to promote equality and equity.

Only competition can motivate all schools to improve—because only competition for customers creates real consequences and real pressure for change when schools fail. Only competition forces principals and teachers—constantly—to make the difficult changes necessary to meet the needs of their students. When a child chooses the school, there's ownership in that choice. There's also ownership on the part of the parent and ownership on the part of the teachers as well. That ownership translates into student attitudes very different from those created when a child is simply assigned to a building.

The single greatest influence on the effectiveness of a school organization is the role of parents in the school. All other things being equal, schools in which parents are highly involved, cooperative, and well-informed are more likely to develop effective organizations than are schools in which parents do not possess these qualities. Because customers can take their business elsewhere, providers must constantly seek feedback on their needs and then do what is necessary to meet them. Customer driven systems give people choices between different kinds of services. People don't want standardized services anymore. When the customers control the resources, no legislature can protect inferior providers from the verdicts rendered by those customers.

Competition breeds accountability. Many governors point out that even today's antitax electorate has supported tax increases for education—if linked to accountability and performance. Schools providing a high quality education will flourish, the same way as a business that improves its product quality for its consumers. Schools failing to meet the needs of their students will not be able to compete, and in effect will go out of business. Merit pay for individual teachers, to cite one example, just sets teacher against teacher and undermines morale. But merit pay for schools is another matter. Competition between organizations builds morale and encourages creativity.

Our public schools exist to provide education, but they also exist to bring children from all walks of life together. Public schools are losing ground to private schools. Competition that is structured carefully, however, can produce more equitable

results than services delivered by a public monopoly. Public policy and financing must take care of those who don't have enough money. In a voucher system, schools accepting vouchers can be forbidden from charging tuition beyond the voucher and required also to achieve some degree of cultural and racial balance.

Vouchers, cash grants, and funding systems that allocate a set dollar amount for each customer served have been around for decades. Food stamps are vouchers. Our largest housing subsidy—the mortgage interest deduction for income tax purposes—is the equivalent of a voucher. Most of our higher education system is customer driven, and it is widely considered the best in the world.

Perhaps the best contrast between a system that funds individuals and one that funds institutions occurred after World War II, when Congress passed the GI bill. With this act, Congress turned millions of battle-scarred young men and women into the educated backbone of a 30-year economic boom. The trend toward market-oriented government is a direct product of the information age. Consider our higher education system: millions of students (and their parents) sift through volumes of information, compare prices, and finally choose their preferred schools. If the customers have access to all the relevant information and they vote with their feet by deserting one school, no one can argue that the school of choice is not providing quality education.

The key to reinventing government is changing the incentives that drive public institutions. It might mean creating an incentive, for example, for those collecting unemployment insurance to seek new job skills. In education, this might also mean moving to a competitive market in which customers have choices and key stakeholders (parents and teachers) have genuine control.

State governments should set minimum standards, measure performance, and enforce goals. Those who run each school would have to meet very basic standards for curriculum, length of school day, and so on. Each school would develop its own budget, based on the number of students it attracted, and would retain any funds it did not spend. Tenure would be eliminated. When providers have to compete, they constantly look for ways to cut their costs and increase their product quality. When they get their funds from their customers, rather than from a legislature, they also have far greater incentives to invest in innovation.

States should measure and publicize many different kinds of results: test scores; evaluations of students' other work; parent, student and teacher satisfaction surveys; honors won by students (both academic and nonacademic); dropout rates; college placement rates; and, perhaps evaluations by neutral panels of expert observers. The system's primary customers—parents—would use this information to choose the schools their children attended. Schools would be encouraged to earn more money by attracting more students, starting another school or providing new services. These changes would create a system in which parents could choose what they wanted for their children and schools would have no alternative but to provide it, if they wanted to survive. Incentives would replace commands.

Participatory management is spreading in public education. Traditionally, public school systems have been horribly centralized. Yet study after study has proven that schools in which principals and teachers have significant authority are more successful than those in which the important decisions are made by a central administration.

## HEALTH CARE

Health care looms as the nation's next big crisis. In 1991, we spent $750 billion in health care—some 12 percent of our gross national product. Our spending is growing so fast that without fundamental changes it will double by the year 2000. Meanwhile, an estimated 34 million or more people have no health insurance at all.

New technologies that have radically prolonged average life spans have increased the cost of health

care throughout the developed world. Our health care system is extremely hierarchical, with too many functions reserved for highly trained, highly paid physicians and too few for physicians' assistants and nurse practitioners. Perhaps more fundamental, our governments have abdicated a steering role in health care.

### Rowing Doesn't Prevent Problems

Health care is a system thoroughly dominated by professionals. The professional services take increasing proportions of public money, desperately needed by the poor, and consume it in the name of helping poor families. Of the roughly $7,000 in public and private money expended per low-income person in New York City in 1983, only 37 percent reached the poor. During the 1970's, the U.S. Surgeon General estimated that 50 percent of illness was related to behavior, 20 percent to the environment, 20 percent to genetics, and 10 percent to medical care. Yet, we respond to illness primarily with medical care, rather than at the earlier stage of prevention.

We have long been a nation of self-help organizations. It was only with the emergence of an industrial economy of mass production that we began to hire professionals and bureaucrats to do what families, neighborhoods, churches and voluntary associations had done. In truth, we created dependency—welfare dependency, alcohol dependency, and drug dependency. And yet, when we organize our public business, we forget these lessons. We let bureaucrats control our public services. We rely on professionals to solve problems, not families and communities.

### Steering Focuses on Prevention as a Means of Better Health and Better Use of Health Care Dollars

Our governments have begun to shift their health care spending ever so slightly from remediation to prevention. Prevention is not nearly as attractive to politicians as is a visible response to crisis.

An entrepreneurial health system would encourage competition, particularly through prepaid plans, which allow consumers to shop for the best price. It would create strong incentives for preventive care, much of it delivered by physician assistants and nurses. An entrepreneurial government would encourage enterprising behavior by health care institutions, making them survive in a competitive (although carefully structured) marketplace.

## TOMORROW'S GOVERNMENT

Many of our proudest cities and states are virtually bankrupt today. Gone are the days when public officials will be measured by how much they spend on the problems of government. The new realities dictate that public officials will be judged by whether they can work harder and smarter, and do more with less.

Public organizations work best when they have a clear mission. Clarity of mission may be the single most important asset for a government organization. The role of a mission statement is to focus on the purpose of the organization, to call attention to what is important, and to set organizational goals which align practices with values. Missions do not respect turf lines. The solution is to organize programs and services around mission, not turf.

Words like accountability, performance, and results now have begun to ring through the halls of government. Luckily, we have the technology needed to make such words mean something. We can generate, analyze, and communicate a thousand times more information than we could just a generation ago, for a fraction of the cost. We must now change the incentives that drive decision makers. Entrepreneurial governments have attempted to do this in several ways: by changing budget systems, changing accounting systems, creating regional governments, and reforming the electoral system. The closer a government is to its citizens, the more they trust it. The closer it is, the more accountable its officials tend to be and the more likely they are to craft practical solutions rather than create one-size-fits-all programs.

The first governments to respond to new fiscal realities have been local governments—in large part because they hit the financial wall first. During the 1982 recession, the deepest since the Great Depression, state governments also began to hit the same wall.

### Rowing Will No Longer Work for Society's Needs

Today's environment demands governmental agencies that are extremely flexible and adaptable. It demands institutions that empower citizens rather than simply serving them. American corporations have spent the last decade making revolutionary changes: decentralizing authority, flattening hierarchies, focusing on quality, getting close to their customers—all in an effort to remain competitive in the new global marketplace. Today, we live in an era of breathtaking change—in an information society. We live in a global marketplace, which puts enormous competitive pressure on our economic institutions.

Many states now make long-term revenue projections and prepare serious spending forecasts. These measures are helpful in flagging future problems and trends. But if they are not built into the budget, they do not force decision makers to confront the long-term consequences of their actions.

### Steering Will Bring Vision and Solutions That Work

The fact that government cannot be run just like a business does not mean it cannot become more entrepreneurial. Under intense fiscal pressure, state and local leaders have no choice but to change the way they do business.

Entrepreneurial governments are willing to abandon old programs and methods. They are innovative and imaginative and creative. They work with the private sector. They employ solid business judgments. They privatize. They create enterprises and revenue generating operations. They are market oriented. They reward merit. If businesses are to succeed in today's supercompetitive global market, they need the highest quality "inputs" they can get—the most knowledgeable workers, the most ground-breaking research, the cheapest capital, and the best infrastructure—at reasonable costs.

Entrepreneurial governments have begun to listen carefully to their customers, through customer surveys, focus groups, and a wide variety of other methods. They have begun to put their customers in the driver's seat—letting them choose their service providers. Entrepreneurial organizations are learning organizations. They constantly try new things, find out what works and what doesn't, and learn from the experience. In today's world, public institutions also need the flexibility to respond to complex and rapidly changing conditions. Bureaucratic governments currently can do none of these things easily or well.

American governments have always used market mechanisms to achieve their goals to one degree or another. We have long used tax incentives to influence individual and corporate spending. We have long used zoning to shape the growth of our communities. Tax incentives are no doubt America's favorite method of leveraging change through the market. We use tax incentives to encourage people to buy homes and donate to charities, to encourage businesses to hire the poor and invest in research and development, and to encourage institutions to adopt not-for-profit status or employee stock ownership plans.

## THE TREASURER'S CONCLUSION

Reinventing Government, again, is for those who know something is wrong, but are not sure just what it is; for those who have glimpsed a better way, but are not sure just how to bring it to life; for those who have launched successful experiments, but have watched those in power ignore them; for those who have a sense of where government needs to go, but are not quite sure how to get there. In the words of its authors: it is for the seekers. In our own Department of the State Treasurer, Reinventing Government has been required reading.

In North Carolina, quite candidly, we have a history of bold and innovative actions—and we have made a habit of good government. Now, we have that marvelous opportunity once again to be above average—and to provide affordable government, where government is indeed needed (if at all).

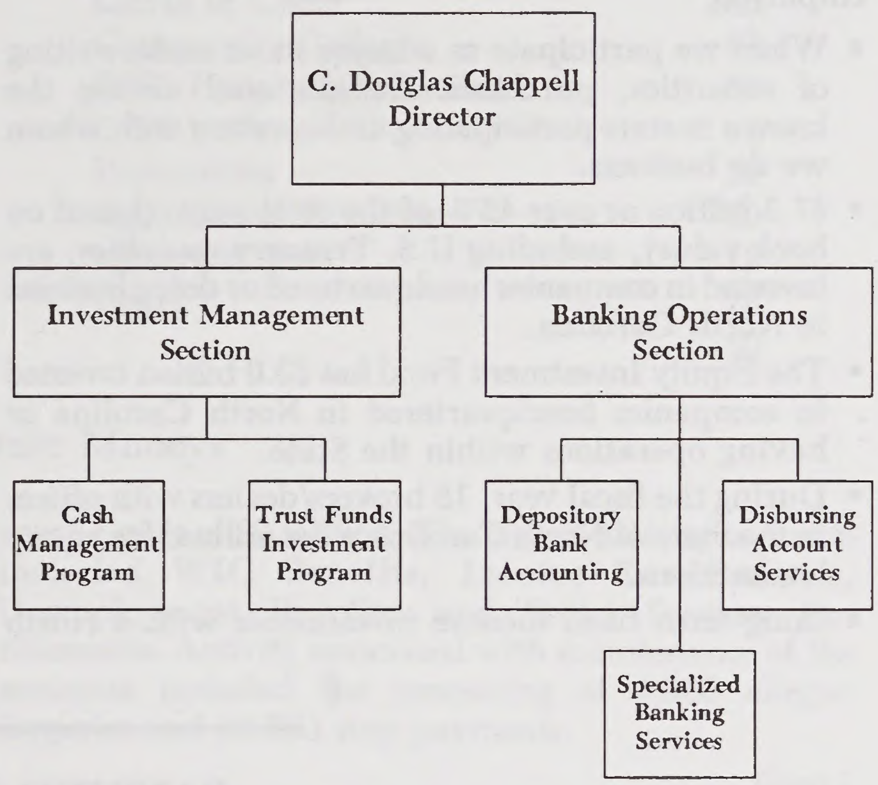
# Investment and Banking Division

## Organization

The Investment and Banking Division's functions can be categorized into two major areas of responsibility:

1. Serving as the "State's Banker."
2. Serving as the "State's Chief Investment Officer."

The Division is organized into two sections in order to carry out these constitutional and statutory functions. They are the "Banking Operations Section" and the "Investment Management Section." Organizationally, this enables the Division to perform in an effective and efficient manner.




## Operational Highlights

- Assets under management at June 30, 1993, amounted to $27.2 billion, based on book value and increased at a daily average rate of $7.8 million, $6.0 million of that as a result of investment income.
- Earnings on all funds under management amounted to approximately $2.2 billion for a net realized return of 8.49%.
- Assets of the Retirement Trust Funds were approximately $22.3 billion at June 30, 1993, having produced a net realized return of 8.97%.
- At June 30, 1993, the Long-term Investment Fund (fixed-income securities) had net assets of $15.8 billion. During the fiscal year, this pool of assets generated net income of $1.4 billion producing a 9.07% net realized rate of return.
- Investment earnings for the retirement funds are greater than the combined employer and employee contributions.
- The Equity Investment Fund posted an 11.08% total return on a trailing thirty-six (36) month time period.
- The volume of State warrants cleared (processed) reached an all-time high of 20.8 million.
- Over 200,000 bank deposits made by 750 depositing agency locations were processed and accounted for.
- Over $2 billion in pay/benefits were paid to State employees and retirees through "direct deposit," representing a 75% participation rate of all eligible recipients.
- The value of securities pledged to the State Treasurer to secure public deposits in North Carolina financial institutions totaled over $2.0 billion.

## The North Carolina Impact

Operating Policy — It is our policy to do business within the State of North Carolina whenever it can be done at no disadvantage to the Cash Management or the Trust Funds Investment Programs.

The Constitution holds inviolate the funds of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System [Article V, Section 6(2)]. It states that such funds may not be used "for any purpose other than retirement system benefits and purposes, administrative expenses, and refunds." It further states that such funds "shall not be applied, diverted, loaned to or used by the state, any state agency, state officer, public officer or public employee."

- When we participate as a buyer in an underwriting of securities, purchases are allocated among the known in-state participating underwriters with whom we do business.
- $7.1 billion or over 42% of the total assets (based on book value), excluding U.S. Treasury securities, are invested in companies headquartered or doing business in North Carolina.
- The Equity Investment Fund has $3.0 billion invested in companies headquartered in North Carolina or having operations within the State.
- During the fiscal year, 18 brokers/dealers with offices in the State of North Carolina were utilized for equity transactions.
- Long-term fixed income investments with a North Carolina impact (excluding U.S. Treasury and Agency securities) totals nearly $3.6 billion.
- Approximately $1.4 billion of the North Carolina Retirement Systems' assets are invested in Government National Mortgage Association (GNMA) securities that are serviced by North Carolina based servicers.
- Approximately $125 million is invested in six-month certificates of deposit and savings certificates in some 67 financial institutions located across North Carolina.
- Investment transactions are conducted with some 64 brokers/dealers, 26 of which have offices in North Carolina.
- Seven of our nine equity advisors/managers are located in North Carolina, managing some $2.5 billion in assets.
- More than 800 deposits are made each work day to some 700 different branches of various North Carolina financial institutions located from Murphy to Manteo.
- Some $175 million has been invested in a southeastern equity fund during the last four years, which focuses on smaller growth companies. Many of them are doing business in North Carolina.
- Two of our real-estate managers are located in North Carolina, managing approximately $28 million in assets.
- Six of our eight venture capital managers are headquartered or have an office in North Carolina. These firms manage $20 million or 70% of the Venture Capital Investment Fund.

## BANKING OPERATIONS

### Serving as the State's Banker

The General Assembly of North Carolina has provided a centralized system for managing the flow of moneys collected and disbursed by all State departments, agencies, institutions, and universities (entities). Rather than each of these entitites having an account with a commercial bank, they maintain accounts with the State Treasurer. The State Treasurer in turn provides each entity the same service that a commercial bank would normally provide. This system assures that the State is the prime beneficiary of the flow of its funds through the commercial banking system in the course of conducting State business.

### Receiving State Moneys

All revenues collected by a State entity on behalf of the State must be deposited with the State Treasurer's Office for credit to the entity's budget code account. For most entities located in Raleigh, deposits are made directly with the Investment and Banking Division's "teller window" located in the Albemarle Building. The Division processes these deposits by preparing qualified "cash letters" to be presented to corresponding depository banks for collection. Checks are encoded and processed on a reader-sorter. This allows the Division to sort the checks according to their routing-transit numbers, thereby allowing presentment of most of the items to banks which can give same day availability. This in essence is better than a "lock box" arrangement with a bank, since the Division can obtain same day availability on more items than a bank could obtain. Because of its volume of receipts, the Department of Revenue utilizes similar type equipment and prepares its own "cash letters" for presentment to the corresponding depository banks as arranged by the State Treasurer's Office. The same benefits are obtained by both offices for the State's Cash Management Program.

For entities located outside of Raleigh, the Division has established correspondent depository relationships

with various banks and savings institutions in order for those entities to have a convenient location to make their deposits. During fiscal year 1992-93, the Division processed and accounted for over 200,000 deposits made by some 750 different depositing entities. The majority of the entities deposit into a single Raleigh cash concentration account maintained with one of the nine banking institutions which has a State-wide branch network. This minimizes the number of bank accounts needed and allows for the funds deposited to be concentrated for use by the Investment Management Section as soon as the moneys become "collected funds."

Some entities are not located near a cash concentration bank branch. In these situations, an account is established with a local community bank to accept their deposits. Once notified of the deposit of funds into one of the local depository accounts, the Banking Operations Section initiates Automated Clearing House (ACH) debits in order to consolidate the funds into a Raleigh bank account. At fiscal year end, there were 43 local depository relationships.

During the year, an automated deposit reporting system was developed which allows the 750 depositing entities to report their deposits to the State Treasurer's Office through an on-line system. The system became operational September 1, 1993, and replaced the old system which required the entities to prepare and mail to our office deposit forms referred to as "certifications of deposit." The on-line system operates through the State computer network.

**DEPOSITING LOCATIONS BY CATEGORY**

| | |
|---|---|
| Drivers License Offices | 157 |
| License Plate Agents | 123 |
| DEHNR Parks & Offices | 103 |
| Clerks of Court | 100 |
| Community Colleges | 67 |
| DHR Hospitals & Facilities | 50 |
| DOT Stations | 44 |
| Universities | 39 |
| Agricultural Facilities | 29 |
| Historical Sites | 12 |
| Other | 26 |
| | 750 |

## Disbursing State Moneys

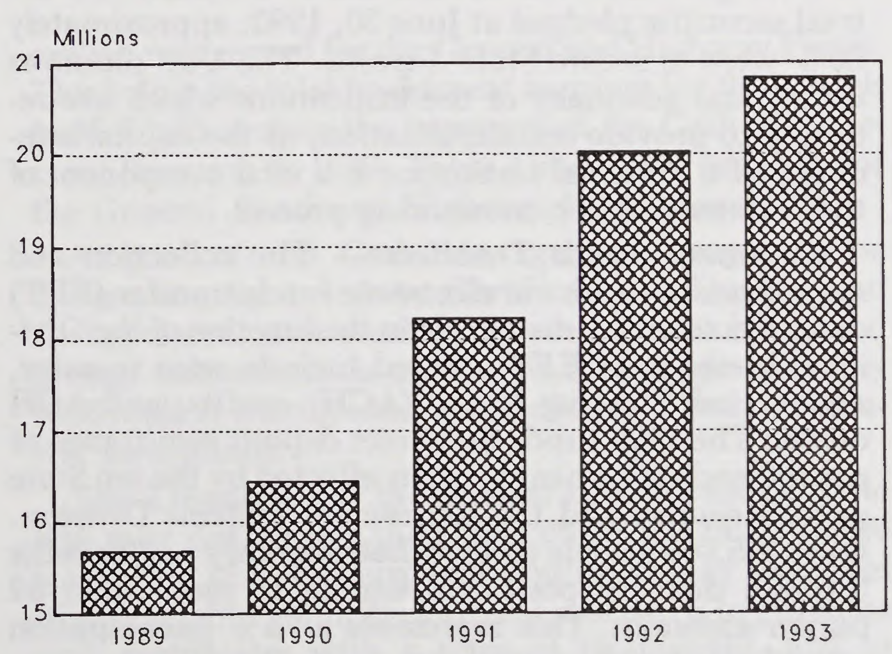
North Carolina utilizes a warrant system to disburse funds. In order for a State entity to disburse funds, it issues warrants (State checks) against a disbursing account maintained with the State Treasurer, made payable to an eligible payee. The warrants bear the State Treasurer's unique ABA routing transit number and are payable at par through the Federal Reserve System. Warrants issued by the various State entities are deposited by the recipients into the commercial banking system and are ultimately presented to the State Treasurer's Office for payment. Daily warrant clearings are accepted from the Federal Reserve Bank, the State Employees' Credit Union, and nine correspondent banks desiring to present warrants directly to the State Treasurer, as opposed to "clearing" these items through the Federal Reserve System. The main advantage of the warrant system is that the banker's "float," and the earnings thereon, are captured for the State.

The Division provides each entity a disbursing account. This is similar to a commercial checking account service provided by the banking community for its customers. The Division verifies the validity of warrants presented against each entity's account and does not pay those deemed invalid. Monthly statements are rendered to each entity, along with the cancelled warrants. The Division also offers a warrant safekeeping service (non-return of warrants) and magnetic tapes to facilitate automated account reconciliation.

Through the approximately 600 disbursing accounts, some 20.8 million warrants were processed during the fiscal year. This represents a 4% increase over the prior year's figure of 20 million. The largest activity accounts included WIC Benefits, Income Tax Refunds, Unemployment Benefits, and Social Services Entitlements. Activity associated with maintenance of the accounts included the processing of 2,000 alleged forgeries and 19,583 stop payments.

Chart 1

**WARRANTS CLEARED**
**at June 30**



## Specialized Banking Services

Certain banking services provided by the Division are categorized as "specialized" and are performed by a separate unit known as the "Specialized Banking Services Unit." These functions include investment transaction processing, collateralization of public funds monitoring, and electronic funds transfer (EFT) services.

**Investment Transactions Processing** — One of the responsibilities of the Unit is the completion of all investment transactions after they have been entered into by the Investment Management Section, which entails consummating the receipt and delivery of securities traded versus payment. Associated with this function is the timely collection of all interest and dividend payments, as well as all maturing securities. In order to take advantage of the modern concepts of book-entry and central depositories, the custodian functions for all eligible securities are performed through contractual arrangements by the Bank of New York. The Bank of New York utilizes the Depository Trust Company, the Participant Trust Company, and the Federal Reserve Bank book-entry system. These arrangements enable the State to participate actively in the securities lending market.

**Collateralization of Public Deposits** — A significant responsibility of the Unit is the monitoring of the collateralization of public deposits in North Carolina banks and savings institutions of not only the State deposits, but certain of the local governmental units' deposits as well. Collateralization is required for deposits exceeding any insurance coverage provided by the Bank Insurance Fund (BIF) in the case of banks, or by the Savings Associations Insurance Fund (SAIF) in the case of savings institutions.

At June 30, 1993, some 78 depositories had securities with a total market value of over $2.0 billion pledged to the State Treasurer through 21 different escrow agents. Fifty-five of these depositories were "Option 2" institutions, utilizing a program where their individual accounts with the State Treasurer covered the deposits of local governmental entities across the State. Of the total securities pledged at June 30, 1993, approximately 20% were to secure State deposits. The Unit monitors the capital adequacy of the institutions which are required to provide collateralization, as the capital adequacy of a financial institution is a vital component of the collateralization monitoring process.

**Electronic Funds Transfers** — The collection and remittance of funds via electronic funds transfer (EFT) continues to play a major role in the function of the Division. Methods of EFT utilized include wire transfer, Automated Clearing House (ACH) credits, and ACH debits. The Unit funds the direct deposit remittance of payroll and retirement benefits effected by the ten State payroll centers and the Retirement Systems Division. Over 155,000 people receive their monthly pay/benefits through direct deposit, amounting to more than $2 billion annually. This represents a 75% participation rate of all eligible recipients.

Other utilization of EFT includes the collection of Federal funds from the Federal government via wire transfer and ACH credit; the daily concentration of funds deposited in the 43 community banks that are not a part of the branch cash concentration system; the weekly collection of interest due on certificates of deposit and savings certificates from some 70 banks and savings institutions across the State via ACH debits; and the initiation of vendor payments via ACH credit on behalf of various State agencies. These tasks are performed by the Unit through the utilization of direct communications with banks utilizing personal computers.

**State Treasurer's Electronic Payments System (STEPS)** — During the year, the STEPS program was enhanced. The system was made available to all local governmental units, for both remitting moneys due certain State agencies (STEPS-IN), and for receiving moneys due from certain State agencies (STEPS-OUT). The system utilizes the Automated Clearing House (ACH) for facilitating the transfers electronically, eliminating the necessity of issuing and mailing checks. When fully implemented during FY 1993-94, STEPS will have replaced the current "Governmental Moneys Transfer System" (GMTS), with the new system offering the local units the option of having their payments deposited to or remitted from an account maintained with the financial institution of their choice. This enhancement should lead to more local units of government electing to receive their funds electronically and will allow more types of State agency payments to be eligible for distribution electronically. During FY 1992-93, over $2 billion of State-shared revenues and entitlements were distributed by EFT.

The use of STEPS-IN has been offered by the Retirement Systems Division since May of 1992. A unit desiring to remit its monthly retirement contribution payment simply makes a toll-free telephone call to the State's contracted data collection center to authorize an ACH debit to be initiated against its selected depository account. A local unit can also authorize the payment using a personal computer. STEPS allows the local unit the ability to control the effective date of a payment, thereby providing assurance that the payment is not made earlier than necessary, but is made timely in order to avoid any penalties.

**Payment of the State's Debt** — The Treasurer is charged with the responsibility of making timely payment of principal and interest on North Carolina's General Obligation debt, a function vital to the maintenance of the State's "AAA" credit rating. The Division arranges to have "readily available funds" in the hands of the paying-agent banks on due dates via EFT.

Through these arrangements, the bondholders have access to their money as promised; meanwhile, the funds are invested for the benefit of the State until the last possible moment. Complete information as to amounts of principal and interest due, by issue, is provided by the State and Local Government Finance Division.

**Cash Flow Calculations** — All of the various banking functions result in cash flows that affect the bank balances making up the Treasurer's total cash position on a daily basis. This data is generated daily by the Banking Operations Section and serves as the base for the Division's investment functions.

# INVESTMENT MANAGEMENT

## Serving as the State's Chief Investment Officer

The State Treasurer administers the Cash Management and Trust Funds Investment Programs. As such, the Treasurer is directed to "establish, maintain, administer, manage and operate" investment programs for all funds on deposit, pursuant to the applicable statutes. In so doing, the Treasurer "shall have full power as a fiduciary" and shall manage the investment programs so that the assets "may be readily converted into cash as needed."

At June 30, 1993, assets under management totaled $27.2 billion at book value. This total represents the aggregate assets of four separate pension systems, miscellanous trust funds, and the General and Highway Funds. In establishing the comprehensive management program, the State Treasurer, utilizing a professional investment staff, has developed an investment strategy for each fund that recognizes the guidelines of the governing General Statutes and provides diversification as appropriate for the participants. Through these investment programs, as modified from time to time, the investment management staff strives to enhance the performance of funds under the State Treasurer's control.

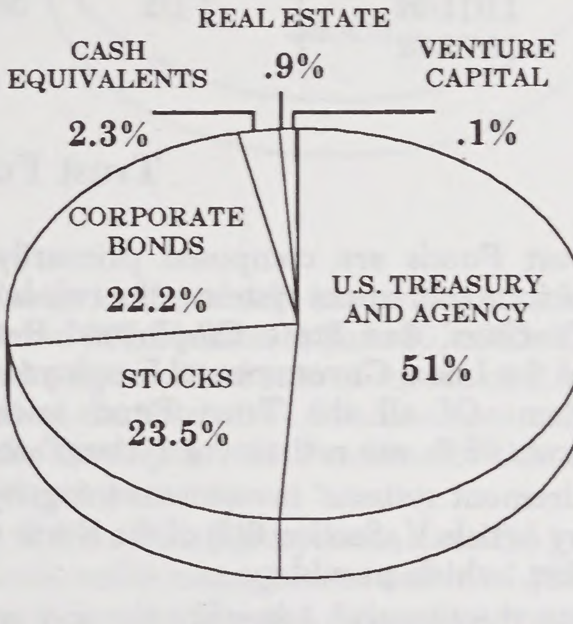
General Investment Objective — The objective for all investment programs is to generate maximum income consistent with safety of principal. Prudence in discharging this fiduciary obligation requires that all investments be reviewed continuously, so that opportunities in the secondary markets to improve the quality and/or the income stream are not overlooked.

Operating Policy — In conducting the activities of the Investment Management Section, it is the Treasurer's policy to do business within the State of North Carolina, whenever it can be done at no disadvantage to the Cash Management or the Trust Funds Investment Programs. As an example, whenever either program participates as a buyer in an underwriting of securities, fixed-income or equity, purchases are allocated among the known in-State participating underwriters with whom we conduct business.

Chart 2 reflects the type of investments owned by funds under management.

Chart 2

TYPE OF INVESTMENTS OWNED BY FUNDS UNDER MANAGEMENT
at June 30, 1993




## Cash Management Program

The funds associated with the Cash Management Program are primarily those of the General and Highway Funds, as well as the cash balances of the trust funds under management. Daily, the Division tracks the cash flow of these funds through the various State Treasurer's bank accounts and computes the amount available for investment. This amount is derived from the total of the day's maturing securities, plus or minus the net difference between the day's receipts and expenditures. The net excess is then invested in short-term securities as authorized by statute and in accordance with projected future cash flow needs.

Because the Treasurer's cash balances are ultimately subject to disbursement upon presentation of valid warrants, the primary considerations in making investments are safety and liquidity; the secondary consideration is income. The invested assets of the Cash Management Program fluctuated between $3.3 billion and $4.7 billion during the fiscal year. Revenues from the Cash Management Program were approximately $256 million in the fiscal year ended June 30, 1993. Of this total, $117 million was earned for the General and Highway Funds. This brings the total investment earnings for these funds to $2.7 billion since the inception of the Cash Management Program in 1949. Table 4 shows the earnings for the General Fund and Highway Funds since 1949.

As part of the Cash Management Program, the Treasurer may invest in Certificates of Deposit and Saving Certificates issued by North Carolina banks and savings institutions. As of June 30, 1993, approximately $125 million was invested in these North Carolina financial institutions.

The Treasurer sets the interest rate, which by State law may not be less than the return available in the market on U.S. Government and/or Agency securities of comparable maturity. Current practice is to purchase such certificates with a term of six months, and to schedule maturities weekly in order to afford a measure of liquidity. Chart 3 indicates the fluctuation in interest rates set for Certificates of Deposit and Saving Certificates during the fiscal year.

(Cash Management Program — Continued)

Chart 3

**Interest Rates on Certificates of Deposits and Saving Certificates July 1, 1992 - June 30, 1993**

| Rate (%) | Effective Date | Rate (%) | Effective Date |
|---|---|---|---|
| 4 | 07/01/92 | 3 5/8 | 12/23/92 |
| 3 7/8 | 07/15/92 | 3 3/8 | 01/13/93 |
| 4 | 08/05/92 | 3 1/4 | 01/27/93 |
| 3 3/4 | 08/12/92 | 3 3/8 | 02/17/93 |
| 3 5/8 | 08/19/92 | 3 1/4 | 02/24/93 |
| 3 3/4 | 08/26/92 | 3 3/8 | 03/03/93 |
| 3 5/8 | 09/09/92 | 3 1/4 | 03/31/93 |
| 3 3/8 | 09/16/92 | 3 3/8 | 04/07/93 |
| 3 1/4 | 09/30/92 | 3 1/4 | 04/14/93 |
| 3 1/8 | 10/07/92 | 3 3/8 | 04/28/93 |
| 3 3/8 | 10/14/92 | 3 1/2 | 06/09/93 |
| 3 1/2 | 10/28/92 | 3 3/8 | 06/16/93 |
| 3 5/8 | 11/11/92 | 3 1/2 | 06/23/93 |
| 3 3/4 | 12/02/92 | | |

Certificate of Deposit activity during fiscal year 1992-93 and 1991-92 is compared below:

| | June 30, 1993 | June 30, 1992 |
|---|---|---|
| Certificates Renewed | 226 | 237 |
| New Certificates Issued | 20 | 22 |
| Certificates Paid Off | 29 | 58 |
| Face Value of Certificates | $125,236,000 | $146,986,000 |

## Trust Funds Investment Program

The Trust Funds are composed primarily of the holdings of four retirement systems, the two largest being the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System. Of all the Trust Fund assets under management, 98% are retirement systems' assets.

The retirement systems' investment integrity is held inviolate by Article V, Section 6(2) of the North Carolina Constitution, which provides:

> "Neither the General Assembly nor any public officer, employee, or agency shall use or authorize to be used any part of the funds of the Teachers' and State Employees' Retirement System or the Local Governmental Employees' Retirement System for any purpose other than retirement system benefits and purposes, administrative expenses, and refunds; except that retirement system funds may be invested as authorized by law, subject to the investment limitation that the funds of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System shall not be applied, diverted, loaned to, or used by the State, any State agency, State officer, public officer, or public employee."

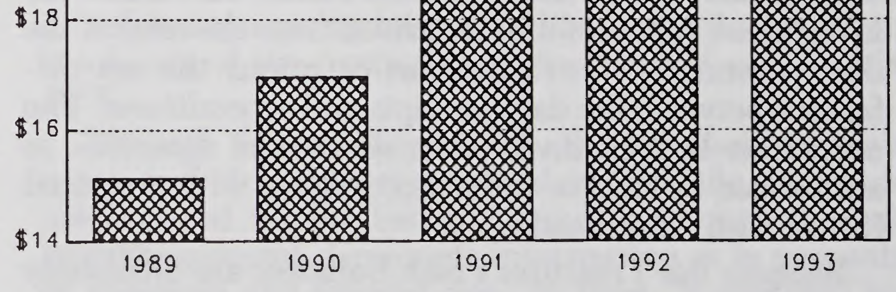
In addition to the assets of the various retirement systems and funds, numerous other Trust Funds are managed, including the North Carolina Employee Disability Fund, the State Treasurer's Escheat Fund, various Educational Trust Funds, the State Property Fire Insurance Fund, the Insured Student Loan Program, and the Wildlife Endowment Fund.

Trust Fund assets under management reached a total of $22.8 billion on June 30, 1993. Approximately $22.3 billion of these assets are those of the retirement systems.

Chart 4 shows the invested funds since 1989.

Chart 4

**TRUST FUND INVESTMENTS**
**Invested Funds at June 30**



# The Investment Pool

The investment objectives of both the Cash Management and the Trust Funds Investment Programs are achieved through participation in the Investment Pool in one or more investment portfolios (called "funds") established by the Treasurer as authorized by State law. These are:

The Liquid Asset Fund
The Short-term Investment Fund
The Long-term Investment Fund
The Equity Investment Fund
The Venture Capital Investment Fund
The Real Estate Investment Fund
The Bond Proceeds Fund

The Cash Management Program participation is limited to the Short-term Investment Fund while the Trust Funds Investment Program participates in various investment pools, in accordance with the statutory authority and needs of the individual funds. The cost of the investment management function is shared equitably in the ratio of each fund's participation.

Charts 5 and 6 illustrate the distribution of assets by investment fund and distribution of equity by participants.

Chart 5

DISTRIBUTION OF ASSETS
BY INVESTMENT FUND
at June 30, 1993

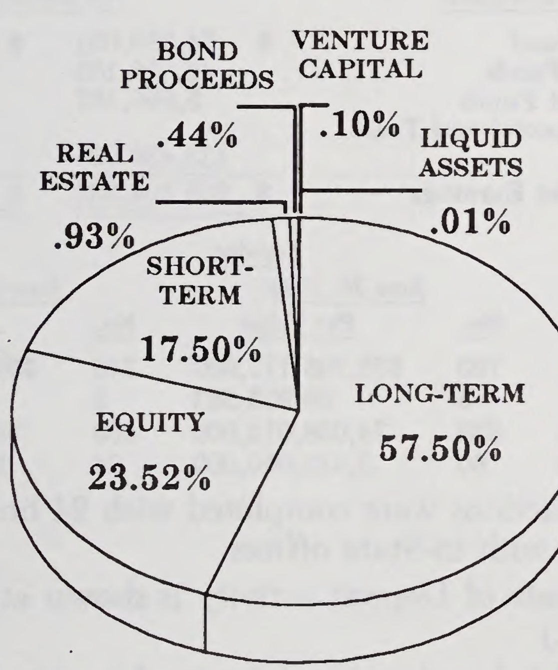
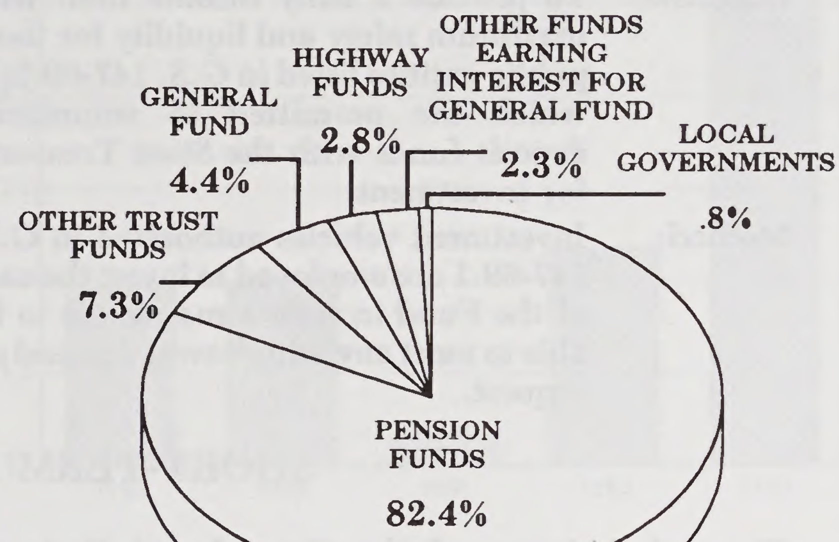



Chart 6

DISTRIBUTION OF EQUITY
BY PARTICIPANTS
at June 30, 1993




The book value of all assets under management amounted to $27.2 billion at June 30, 1993. These assets generated a net realized rate of return of 8.49%. They increased at the rate of $7.8 million per calendar day during the fiscal year, $6.0 million of that as a result of investment income.

Assets of the retirement systems form the greater part of the funds under management and total $22.3 billion. Investment earnings for the retirement trust funds are greater than the combined employer and employee contributions. Earnings for the year ended June 30, 1993, amounted to $1.9 billion and produced a net realized rate of return of 8.97%.

A description of each of the investment pools follows. (Near the end of the narrative on each fund can be found the projected realized return and the actual realized return for the fiscal year 1992-93. In addition, the projected realized return for the ensuing fiscal year is shown.)

# LIQUID ASSET FUND

The State Treasurer maintains this Fund (established in 1982) as an investment alternative available to local public authorities, local governmental units and local ABC boards of the State having custody of any funds not required by law to be deposited with and invested by the State Treasurer.

Objective: To provide a daily income fund with maximum safety and liquidity for those public entities listed in G.S. 147-69.3(b) which are permitted to voluntarily deposit funds with the State Treasurer for investment.

Method: Investment vehicles authorized in G.S. 147-69.1 are employed to invest the cash of the Fund in such a manner as to be able to meet any withdrawal demand on request.

The 1992-93 and 1991-92 fiscal years are compared below:

| | June 30, 1993 | June 30, 1992 |
|---|---|---|
| Net Assets | $2.6 million | $8.4 million |
| Net Realized Rate of Return | 3.15% | 4.34% |
| Earnings for Year | $ 146,381 | $ 219,070 |

The actual realized return of the Liquid Asset Fund for the fiscal year was 3.15%, versus a projection of 3.25%.

The projected realized return for the fiscal year ending June 30, 1994, is 2.75%.

# SHORT-TERM INVESTMENT FUND

The cash balances of the General and Highway Funds, because of their primary need for safety and liquidity, are invested in the Short-term Investment Fund (established in 1949), and are the primary participants in the Fund. Other participants include the cash balances of the Liquid Asset, Long-term, Equity, Real Estate, and Venture Capital Investment Funds, and some voluntarily deposited funds belonging to various boards, commissions, community colleges, and school administrative units. (The cash balances of the Bond Proceeds Funds are invested separately due to Federal requirements.) Thus, the cash in any fund under the Treasurer's management is always fully invested.

Objective: To provide safety, liquidity, and income on average monthly balances for the General Fund and Highway Funds, and for other participants permitted or required by law to deposit funds with the State Treasurer for investment.

Method: Investment vehicles authorized in G.S. 147-69.1 are employed to invest all cash in the Fund in excess of the amount required to meet current needs, in such manner as to be "readily convertible into cash" as required by law.

The 1992-93 and 1991-92 fiscal years are compared below:

| Participants | June 30, 1993 | June 30, 1992 |
|---|---|---|
| | Assets | |
| General Fund | $1,230,128,765 | $ 721,165,520 |
| Highway Funds | 771,008,717 | 677,612,837 |
| Other | 2,761,580,943 | 2,264,335,246 |
| Total Net Assets | $4,762,718,425 | $3,663,113,603 |
| Net Realized Rate of Return | 6.57% | 7.45% |

| Participants | Net Earnings | |
|---|---|---|
| General Fund | $ 74,330,080 | $ 57,241,580 |
| Highway Funds | 42,826,103 | 42,735,623 |
| Retirement Funds | 5,898,187 | 6,782,524 |
| Various Special and Trust Funds | 133,439,962 | 118,907,429 |
| Total Net Earnings | $ 256,494,332 | $ 225,667,156 |

Activity

| | June 30, 1993 No. | June 30, 1993 Par Value | June 30, 1992 No. | June 30, 1992 Par Value |
|---|---|---|---|---|
| Purchases | 700 | $75,705,177,000 | 746 | $59,844,431,000 |
| Sales | 3 | 99,905,583 | 2 | 65,000,000 |
| Maturities | 635 | 74,038,015,000 | 669 | 58,960,522,000 |
| Exchanges | 80 | 3,915,000,000 | 94 | 2,590,000,000 |

Transactions were completed with 24 broker/dealer firms, 9 with in-State offices.

(Certificate of Deposit activity is shown at the top of page 22.)

Listed below is a breakdown of investments in the Short-term Investment Fund as of June 30, 1993:

| | Par Value | Percentage of Portfolio | Book Yield | Average Maturity (Days) |
|---|---|---|---|---|
| Repurchase Agreements | $ 351,000,000 | 5.27% | 3.183% | 1 |
| Bank Certificates of Deposit & Savings Certificates | 125,236,000 | 2.64 | 3.396 | 108 |
| U.S. Treasury Bills | 651,000,000 | 13.72 | 3.099 | 94 |
| U.S. Treasury Notes/ Bonds | 3,570,000,000 | 75.22 | 7.385 | 1,228 |
| U.S. Agencies & Agency Disc. Notes | 140,000,000 | 2.95 | 9.061 | 1,251 |
| Corporates | 10,000,000 | .21 | 9.249 | 684 |
| | $4,847,236,000 | | | 1,081 |

(Short-term Investment Fund — Continued)

There are two primary factors that impact realized investment returns. They are the balances available for investment and the level of interest rates, neither of which we, the managers of the State's investment assets, control. Additional factors that affect the return for the Short-term Investment Fund, in which the General and Highway Funds are participants, include the following:

1) The investments which the Short-term Investment Fund portfolio may be holding on a particular date may be earning at different levels from current interest rates. For example, if our investments were made when interest rates were higher, we would continue to earn at the higher rates of return, even though current interest rates may be lower. This happens in reverse as well.

2) The level of interest rates at which new investments are made fluctuates according to the shape of the yield curve and the spreads between different types of eligible securities.

The actual realized return of the Short-term Investment Fund for the fiscal year was 6.57%, versus a projection of 6.50%.

The projected realized return for the fiscal year ending June 30, 1994, is 6.00%.

Charts 7 and 8 show the net assets and the realized income of the Short-term Investment Fund since 1989.

Chart 7

**SHORT-TERM INVESTMENT FUND**

**Net Assets at June 30**

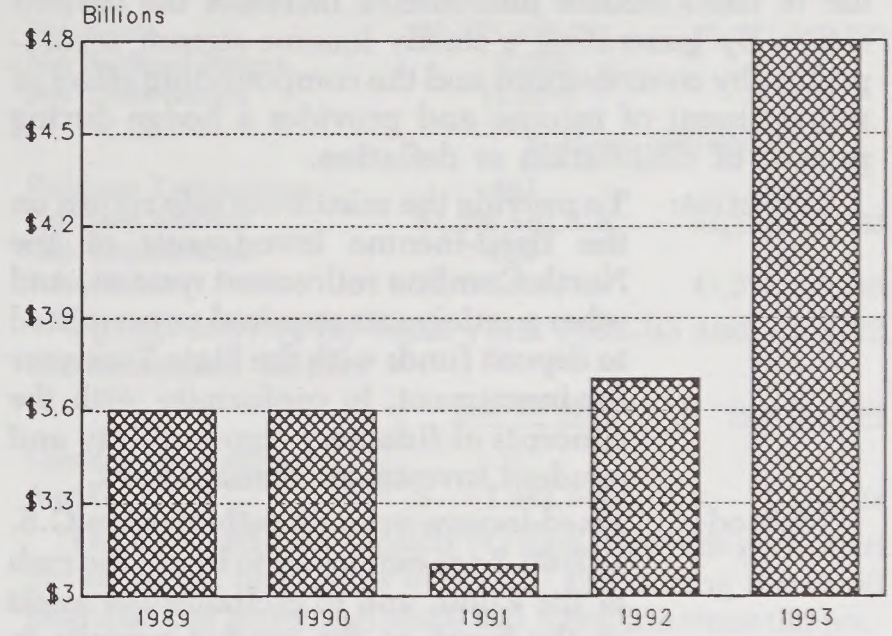
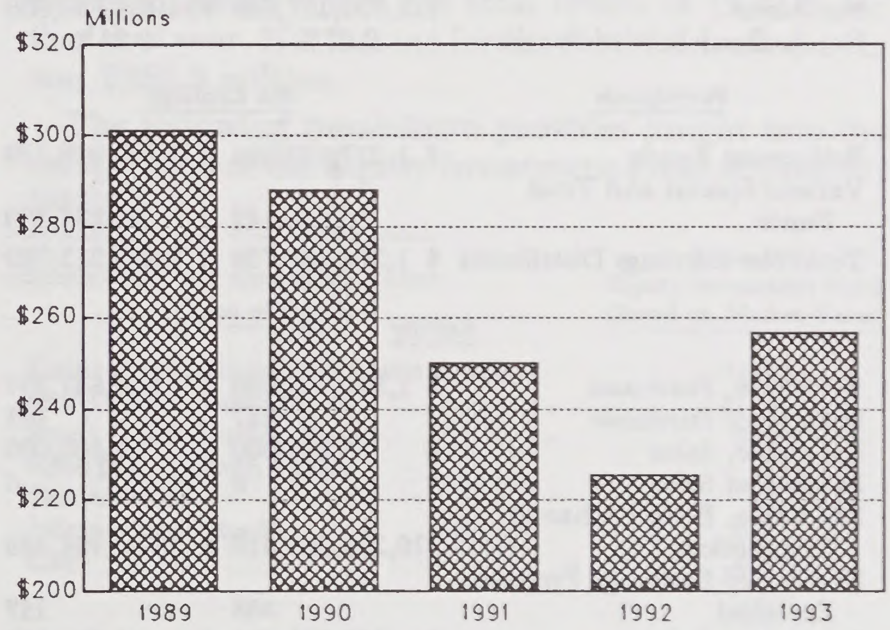



Chart 8

**SHORT-TERM INVESTMENT FUND**

**Realized Income at June 30**



# LONG-TERM INVESTMENT FUND

The initial investment efforts represented by this Fund were started in 1941 on behalf of retirement and other trust funds and continue to be managed "in-house." The use of fixed-income instruments increases the current return by generating a steady income stream accomplished by contributions and the compounding effect of reinvestment of income and provides a hedge during periods of disinflation or deflation.

Objective: **To provide the maximum safe return on the fixed-income investments of the North Carolina retirement systems, and other participants required or permitted to deposit funds with the State Treasurer for investment, in conformity with the concepts of fiduciary responsibility and prudent investment management.**

Method: **Fixed-income vehicles authorized in G.S. 147-69.2 are employed to invest the cash of the Fund, and to exchange the assets of the Fund as the market permits in order to improve the income and/or quality of the Fund.**

The 1992-93 and 1991-92 fiscal years are compared below:

| | June 30, 1993 | June 30, 1992 |
|---|---|---|
| Net Assets | $15,790,157,868 | $14,482,549,830 |
| Net Realized Rate of Return | 9.07% | 9.31% |
| **Participants** | **Net Earnings** | |
| Retirement Funds | $ 1,337,752,594 | $ 1,260,976,179 |
| Various Special and Trust Funds | 36,731,142 | 33,237,150 |
| Total Net Earnings Distributed | $ 1,374,483,736 | $ 1,294,213,329 |
| **Activity** | | |
| Par Value, Purchases | $ 1,849,395,980 | $ 1,502,837,307 |
| Number of Purchases | 247 | 161 |
| Par Value, Sales | $ 19,478,000 | $ 52,860,000 |
| Number of Sales | 6 | 4 |
| Par Value, Bond Exchange Transactions | $10,361,059,416 | $ 5,609,994,446 |
| Number of Exchange Proposals Executed | 368 | 187 |
| Par Value, Calls | $ 123,275,361 | $ 14,959,232 |
| Number of Calls | 31 | 22 |

Transactions were completed with 33 broker/dealer firms, 10 with in-State offices.

The quality of the portfolio remains extremely high, as shown below:

| Quality Rating | June 30, 1993 | June 30, 1992 |
|---|---|---|
| AAA | 74% | 74% |
| AA | 17 | 20 |
| A | 7 | 3 |
| BAA* | 2 | 3 |
| | 100% | 100% |

*Securities purchased when rated "A" or higher; downgraded as a result of leveraged buy-out activity.

Listed below is a description of investments in the Long-term Investment Fund as of June 30, 1993:

| | Par Value | Percentage of Portfolio | Book Yield | Average Final Maturity (Years) |
|---|---|---|---|---|
| U.S. Treasury Securities | $ 5,860,120,000 | 35.94% | 8.93% | 22.5 |
| U.S. Agency-GNMA | 3,884,798,380 | 23.83 | 8.81 | 28.3 |
| Corporate Bonds | 5,489,656,313 | 33.67 | 8.72 | 24.8 |
| U.S. Agency Insured/Guaranteed | 342,840,000 | 2.10 | 10.04 | 14.5 |
| International Securities | 715,545,000 | 4.38 | 9.28 | 24.0 |
| Long-term CD's | 11,150,000 | .07 | 11.96 | 1.6 |
| | $16,304,109,693 | | | 24.4 |

The actual realized return of the Long-term Investment Fund for the fiscal year was 9.07%, versus a projection of 8.75%.

The projected realized return for the fiscal year ending June 30, 1994, is 8.75%, while the long-term actuarial requirement is 7.50%.

Charts 9 and 10 show the net assets and the realized income of the Long-term Investment Fund since 1989.

Chart 9

LONG-TERM INVESTMENT FUND
Net Assets at June 30

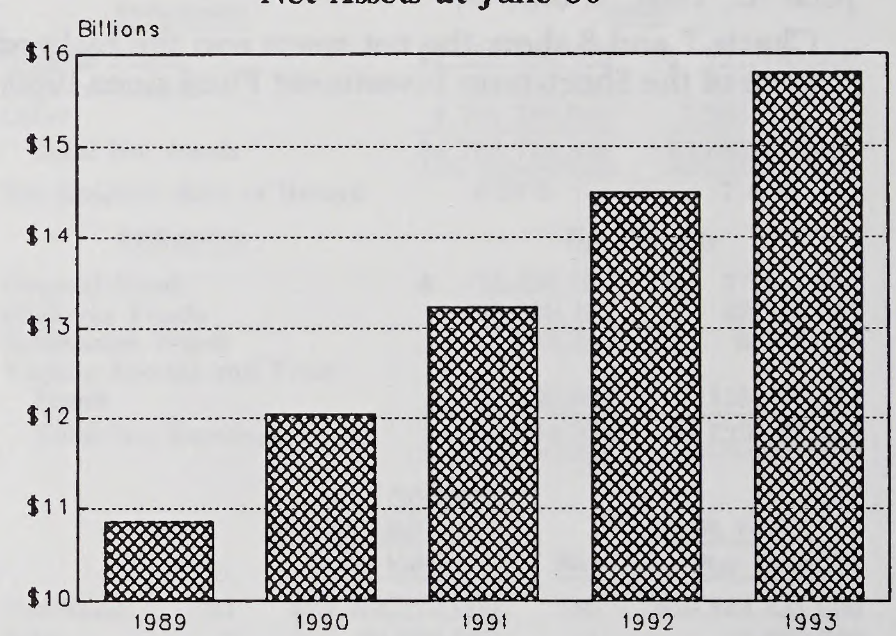
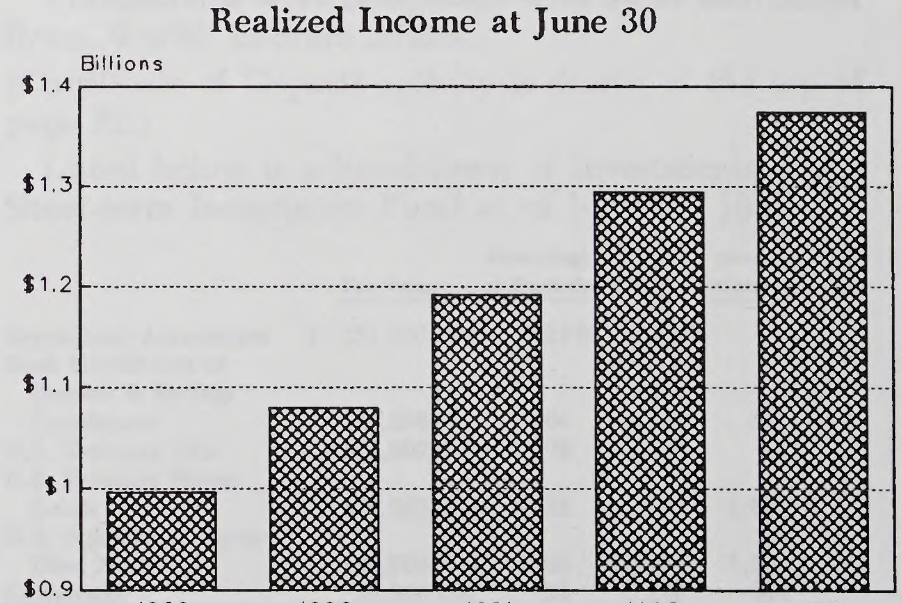



Chart 10

LONG-TERM INVESTMENT FUND
Realized Income at June 30



# EQUITY INVESTMENT FUND

The Equity Investment Fund was established in 1961 exclusively for participation by the North Carolina retirement systems and generates long-term appreciation while providing a hedge during periods of moderate inflation.

Overall Objective: **To provide long-term growth of capital while observing the requirements of applicable State law and the principles of prudent investment management. The Equity Investment Fund is expected to generate a total return which will exceed that of the Standard and Poor's composite Stock Index (S&P 500) on a trailing 36-month basis.**

Method: **Each portfolio within the Fund will have specific objectives and an appropriate benchmark against which its performance will be compared. To achieve the Overall Investment Objective, the Fund invests its assets in a portfolio of common stocks and convertible debentures and in shares of beneficial interest in various trusts using a diversified group of investment advisors and managers as authorized in G.S. 147-69.2 and G.S. 147-69.3.**

The Equity Investment Fund accounted for 32.2% of the total retirement systems' investments at June 30, 1993, based on market value. The Fund utilizes five equity advisors who make recommendations on purchases and sales with execution of the trades handled by the in-house investment staff. The advisors manage the majority of the core portfolio positions. The Fund also retains twelve equity managers with full discretion concerning equity selection and execution. Full discretion managers are used to invest in specialty areas such as small and mid capitalization stocks, international stocks, and passive strategies.

During the year, the in-house investment staff executed trades for the five equity advisors totaling 54.3 million shares of stock. The average commission paid was five cents per share. This average includes in-house "book crosses" at no cost, discount brokerage, and full service brokerage including "selling concession" on new issue stock when applicable. (Our definition of full service is the commitment of and use of a firm's capital to facilitate a trade.) We are not buyers of equity research. Naturally our advisors and managers are buyers of some "street research."

Commissions were paid to 33 broker/dealer firms, 18 with in-State offices.

The 1992-93 and 1991-92 fiscal years are compared below:

| | June 30, 1993 | June 30, 1992 |
|---|---|---|
| Net Assets | $6,575,430,751 | $5,821,159,879 |
| Net Realized Return | 9.02% | 7.64% |
| Net Total Return | 12.61% | 11.99% |
| **In-House Activity** | | |
| Purchase Transactions | 683 | 696 |
| Purchase Amount | $1,288,563,418 | $1,122,875,633 |
| Sale Transactions | 620 | 567 |
| Sale Amount | $1,253,886,653 | $1,271,418,745 |

Option activity for fiscal years 1992-93 and 1991-92 are compared below:

| | June 30, 1993 | June 30, 1992 |
|---|---|---|
| Opening Transactions | 21 | 48 |
| Amount | $ 1,688,944 | $ 1,378,224 |

The Covered-Call Option Writing Program generated net collected premiums of $2,182,159 during the fiscal year and has generated some $30.9 million since the program's inception on March 1, 1980.

The Equity Investment Fund's performance benchmark is the return of the S&P 500 on a trailing thirty-six (36) month time period. The Fund posted an 11.08% total return versus 11.40% for the S&P 500.

The Equity Investment Fund generated a net realized return of 9.02% and a net total return of 12.61% for the fiscal year. Net income for the fund from all sources was $552.3 million.

The following breakdown provides insight into the composition of the Equity Investment Fund at June 30, 1993:

| Type of Equity | Percent of Equity Investment Fund (Based on Market Value) |
|---|---|
| Large Capitalization Domestic Stocks | 74.1% |
| Mid Capitalization Stocks | 11.3 |
| Small Capitalization Stocks | 3.0 |
| Emerging Growth Stocks | .6 |
| Convertibles | .1 |
| International Stocks | 6.1 |
| Cash | 4.8 |
| | 100% |

The actual realized return of the Equity Investment Fund for the fiscal year was 9.02%, versus a projection of 7.25%.

The projected realized return for the fiscal year ending June 30, 1994, is 7.65%, while the long-term actuarial requirement is 7.50%.

(Equity Investment Fund — Continued)

Charts 11 and 12 show the net assets and realized income of the Equity Investment Fund since 1989.

Chart 11

**EQUITY INVESTMENT FUND**
**Net Assets at June 30**

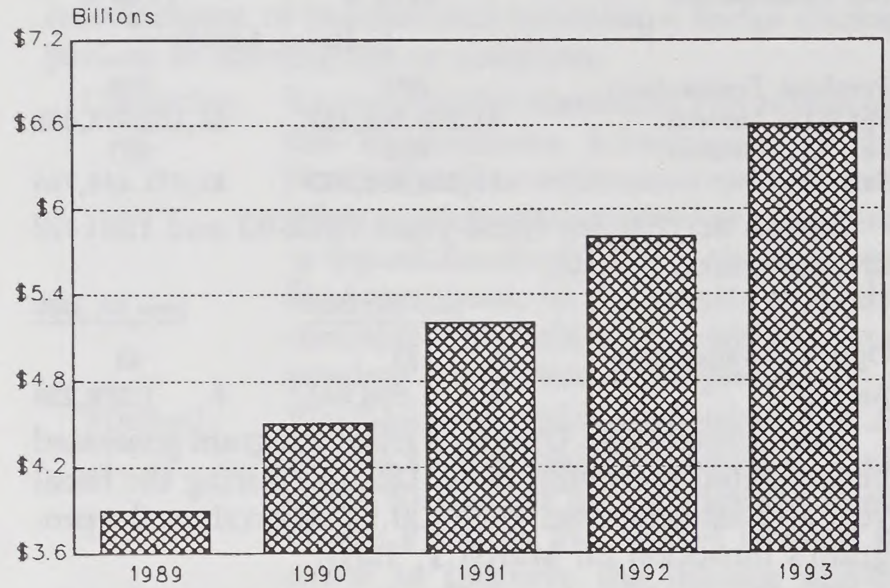
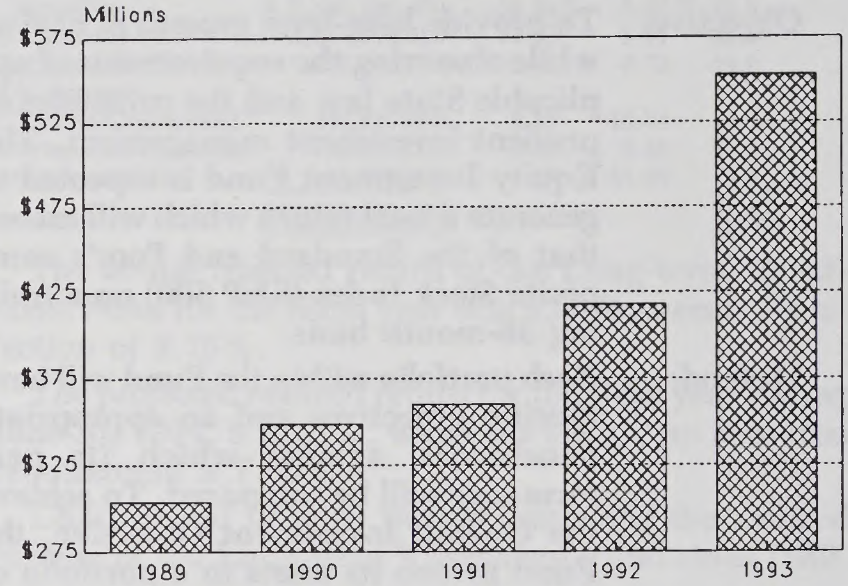



Chart 12

**EQUITY INVESTMENT FUND**
**Realized Income at June 30**




## VENTURE CAPITAL INVESTMENT FUND

The Venture Capital Investment Fund (established in 1988) is provided for participation by the North Carolina retirement systems. The 1990 short session of the General Assembly changed the governing statutes, which had restricted these investments to the General and Highway Funds, on a retroactive basis. This investment is considered a non-financial asset due to its illiquid nature.

Objective: To provide over a period of time (seven to ten years) a source of potentially high realized income. The risk is tempered by diversification in industry type, stage of corporate development, and geographic location.

Method: General Statute 147-69.2(b)(9) authorizes investment in obligations and securities of The North Carolina Enterprise Corporation, or of a limited partnership in which The North Carolina Enterprise Corporation is the only general partner, not to exceed twenty million dollars ($20,000,000). General Statute 147-69.2(b)(10) authorizes investment in limited partnerships whose primary purpose is to invest in venture capital or corporate buyout transactions, not to exceed thirty million dollars ($30,000,000).

The Fund's strategy is to establish and maintain a broadly diversified venture capital portfolio comprised of investments that provide diversification by industry classification, stage of corporate development, and geographic location. Investments in venture capital are monitored over a long-time horizon, due to the amount of time and development necessary to grow and expand relatively new, small companies. This long-term investment philosophy dictates that cash returns in the early stages of the investment cycle will be minimal. Additionally, it is anticipated that losses will be realized in the early stages of investing as certain venture capital companies do not meet projections. However, successful investments in the portfolio should generate returns that prove to be quite satisfactory in relation to the risk taken and the returns generated by more traditional investments.

| | June 30, 1993 | June 30, 1992 |
|---|---|---|
| Net Assets | $28,011,096 | $27,731,572 |
| Net Realized Rate of Return | | |
| Fiscal Year | 1.00% | .27 % |
| Inception to Date | .09% | (.17)% |

Of the Fund's assets, 70% are invested in North Carolina or are managed by North Carolina entities.

The actual realized return of the Venture Capital Investment Fund for the fiscal year was 1.00%, versus a projection of .50%.

The projected realized return for fiscal year ending June 30, 1994, is 3.00%, while the long-term actuarial requirement is 7.50%.

# REAL ESTATE INVESTMENT FUND

The Real Estate Investment Fund (established in 1984) is provided exclusively for participation by the North Carolina retirement systems. This investment is considered a non-financial asset due to its illiquid nature.

Objective: To provide long-term growth of capital through prudent investments in real estate vehicles authorized under applicable State law. Growth of capital will be accomplished by investing and reinvesting a stable flow of current income into the real estate asset class. Positive real rates of return along with additional diversification will be the goals of this Fund.

Method: Investment vehicles authorized in G.S. 147-69.2(b)(7) are utilized to invest the cash of the Fund in shares of beneficial interest in real estate.

At June 30, 1993, the Fund's book value stood at $251.1 million, a 6% increase over the book value recorded at June 30, 1992.

The 1992-93 and 1991-92 fiscal years are compared below:

| | June 30, 1993 | June 30, 1992 |
|---|---|---|
| Net Assets | $251,068,976 | $235,616,085 |
| Net Realized Return | | |
| Fiscal Year | 3.09% | 3.73% |
| Inception to Date | 5.96% | 6.30% |

Of the Fund's assets, approximately 11% are invested in North Carolina or are managed by North Carolina entities.

The actual realized return of the Real Estate Investment Fund for the fiscal year was 3.09%, versus a projection of 4.00%.

The projected realized return for the fiscal year ending June 30, 1994, is 5.90%, while the long-term actuarial requirement is 7.50%.

Charts 13 and 14 show the various property types and the net assets of the Real Estate Investment Fund.

Chart 13

REAL ESTATE INVESTMENTS

By Property Type at June 30, 1993

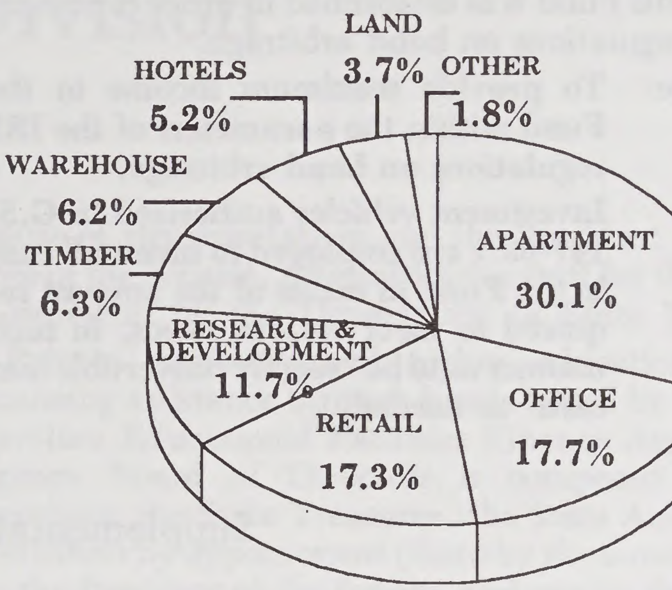
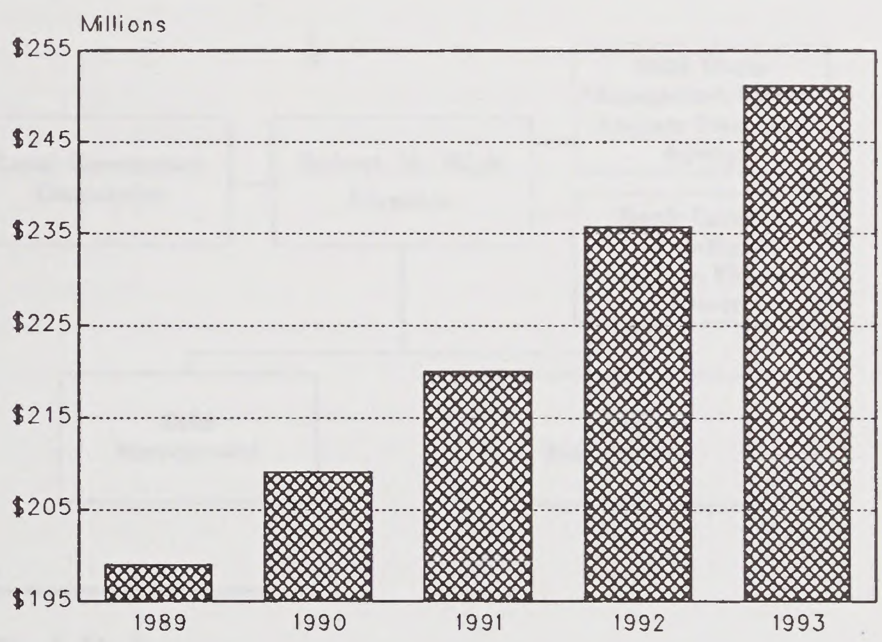



Chart 14

REAL ESTATE INVESTMENT FUND

Net Assets at June 30



# BOND PROCEEDS FUND

The Bond Proceeds Fund includes separate portfolios for the Clean Water Bonds, Series 1987; the Capital Improvement Bonds, Series 1989; the Capital Improvement Bonds, Series A; the Capital Improvement Bonds, Series 1991; and the Prison and Youth Services Facilities Bonds, Series A. This Fund was established in order to comply with IRS regulations on bond arbitrage.

Objective: **To provide maximum income to the Fund within the parameters of the IRS regulations on bond arbitrage.**

Method: **Investment vehicles authorized in G.S. 147-69.1 are employed to invest all cash in the Fund in excess of the amount required to meet current needs, in such manner as to be "readily convertible into cash" as needed.**

At June 30, 1993, net assets of the five portfolios totaled $118,679,335 as reflected below:

| | |
|---|---|
| Clean Water Bonds, Series 1987 | $ 3,608,327 |
| Capital Improvement Bonds, Series 1989 | 2,295,510 |
| Capital Improvement Bonds, Series A | 10,724,729 |
| Capital Improvement Bonds, Series 1991 | 13,456,543 |
| Prison and Youth Services Facilities Bonds, Series A | 88,594,226 |
| Total | $118,679,335 |

Transactions were completed with 4 broker/dealer firms, 2 with in-State offices.

The actual realized return of the Bond Proceeds Fund for the fiscal year was 3.17%, versus a projection of 3.30%.

The projected realized return for the fiscal year ending June 30, 1994, is 3.00%.

## Supplemental Income Program

Supplemental income resulting from the active management of the investment funds for the fiscal year approached $9.2 million. This supplemental income was nearly two and one half times the entire operating budget of the Investment and Banking Division, which was $3,900,313. The largest component of the Supplemental Income Program is securities lending, which has generated earnings in excess of $50 million since its inception in 1979.

### Investment Funds

| Source of Earnings | Short-term | Long-term | Equity | Bond Proceeds | Totals |
|---|---|---|---|---|---|
| Securities Lending | $4,513,272 | $2,307,361 | $ 17,846 | $ | $6,838,479 |
| Option Writing | | | 2,182,159 | | 2,182,159 |
| Fail Balance Earnings | 3,133 | 33,932 | 510 | 23 | 37,598 |
| Dividend Reinvestment | | | 81,391 | | 81,391 |
| Miscellaneous | 5,426 | 9,239 | 5,322 | | 19,987 |
| Totals | $4,521,831 | $2,350,532 | $2,287,228 | $23 | $9,159,614 |

# State and Local Government Finance Division

The State and Local Government Finance Division is organized to provide the State Treasurer, the Local Government Commission, the North Carolina Solid Waste Management Capital Projects Financing Agency, and the North Carolina Educational Facilities Finance Agency with staff assistance in fulfilling their respective statutory functions. The Division is organized along functional lines into two major groups of services: Debt Management and Fiscal Management.

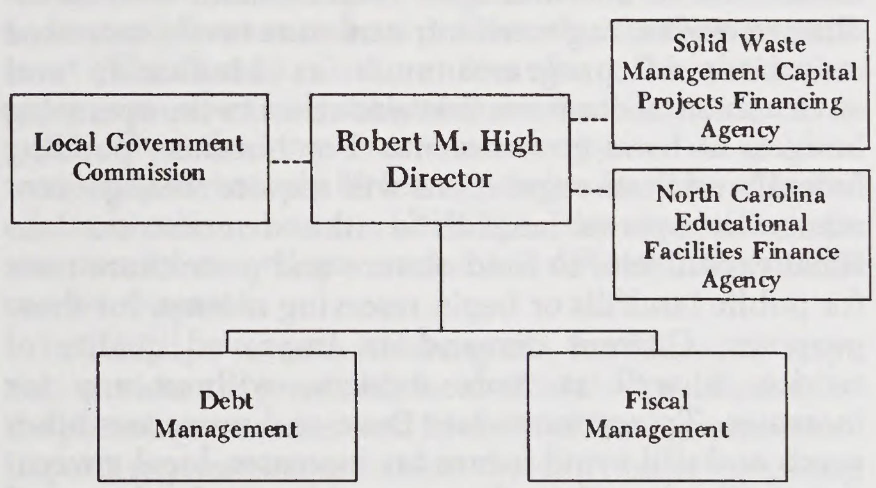
Assistance is rendered to local governments and public authorities in North Carolina on behalf of the Local Government Commission. The Local Government Commission, staffed by the Department of State Treasurer, approves the issuance of debt for all units of local government and assists these units with fiscal management. The Commission is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue, and five others by appointment (three by the Governor, one by the Lieutenant Governor, and one by the Speaker of the House of Representatives). The State Treasurer serves as Chairman and selects the Secretary of the Commission, who heads the administrative staff serving the Commission.

The North Carolina Solid Waste Management Capital Projects Financing Agency provides a loan fund for financing the capital expenses incurred in implementing local and regional solid waste management programs. The Agency Board of Directors consists of five members: the State Treasurer and four others by appointment (two by the Governor and two by the General Assembly upon the recommendation of one each by the Speaker of the House of Representatives and the President Pro Tempore of the Senate). Administrative staff for the Agency is provided by the Department of State Treasurer.

Private institutions of higher education receive financing assistance through bonds issued by the North Carolina Educational Facilities Finance Agency. The Agency Board of Directors is composed of seven members: the State Treasurer, the State Auditor, and five others by appointment (three by the Governor, one by the President of the Senate, and one by the Speaker of the House of Representatives). The administrative staff for the Agency is provided by the Department of State Treasurer.

The Division handles the sale and delivery of all State and local debt and monitors the repayment of State and local government debt.

## Organization




## Operational Highlights

**• Competitive tax-exempt general obligation bond sales for local governments exceeded $1.3 billion with rates averaging 84 basis points under the national Bond Buyer's Index, which resulted in savings in excess of $102.9 million over the life of these bonds.**

**• The State continues to retain its excellent bond rating of "Triple-A" in the wake of several other "Triple-A" states being downgraded.**

**• Capital Appreciation Bonds (CABs) continued to be promoted in bond sales to provide investors with a means to fund educational expenses or other future needs. During the year, approximately $114.6 million in CABs were issued.**

**• The North Carolina Educational Facilities Finance Agency sold over $62 million in tax-exempt bonds, affording considerable savings in interest costs for Davidson College, Mars Hill College, and Duke University.**

**• Seven low-interest rate clean water revolving loans and grants were awarded to local governments for the construction of water and sewer systems.**

• Five governmental units sold special obligation bonds, recently authorized under G.S. 159I, to finance solid waste projects in the State.

• New construction projects for hospitals and continuing care facilities, combined with refunding issues to lower interest rates, sustained the activity level of health care financings to over $908 million.

• The staff made instructional presentations at more than 45 continuing education courses and conferences across the State.

• Informational memoranda on various topics were prepared for units of government, Certified Public Accountants, and elected officials.

• Again this year, the staff prepared the Fiscal Summary of North Carolina Counties and the Fiscal Summary of North Carolina Municipalities in cooperation with the North Carolina Association of County Commissioners and the North Carolina League of Municipalities, respectively. The purpose of these publications is to provide comparative financial information to county and municipal officials for their use in budgeting and in comparing their own unit's financial results to those of other units.

• The staff reviewed single audit reports for approximately 700 units of local government because of the requirements of the Federal and State Single Audit Acts.

• The fourth annual "State Treasurer's Governmental Accounting/Financial Management Awards Program" was sponsored. Fifteen entries were received from municipalities, counties, boards of education, and miscellaneous districts and authorities. Winners were governmental units demonstrating the most improvement in accounting or financial management programs, systems, methods, and procedures.

• Updates to the Policies Manual for units of government were published by the Division. They include statements of the Local Government Commission staff's policies in certain finance-related areas, as well as applicable laws and accounting standards mandated or suggested by authoritative bodies.

## Planning for the Future of North Carolina Local Government

In times of slowed revenue growth and increasing demand for services, local government officials and managers face a challenge in planning for their future. Specifically, they must determine the types of services to offer citizens, the manner in which those services will be provided, and the methods of financing those services. Local officials and managers must contend with dwindling resources, neglected infrastructure needs, increased mandates of programs such as Medicaid, and environmental concerns that add stress to the operating budgets of local governments. For instance, pending federal and State regulations will require local governments that operate landfills to either demonstrate their fiscal capabilities to fund closure and postclosure costs for public landfills or begin reserving moneys for those purposes. Citizens demand an improved quality of service as well as more services, without any tax increases. To accommodate these and numerous other needs and still avoid future tax increases, local government officials will need to reconsider the fundamental ways that governments operate and conduct improved long-term planning.

Traditionally, governments have used laws or other sanctions, regulations, licensing, tax policies, grants, subsidies, loans or loan guarantees, or contracting to provide services. Recently, local officials, squeezed by increasing costs and sluggish revenues, have considered new ways of providing services and improving efficiency through regionalization, privatization, public-private partnerships, and increased citizen involvement. Although these options do not resolve all of governments' shortcomings, they can be viable and effective service delivery alternatives if applied in the appropriate situations.

Governments need jurisdiction in order to deal with problems. Significant and complex problems may require single governmental entities with many resources to deal with them effectively. Solid waste treatment, public transportation, and economic development impact such large areas and are so costly that they may require large integrated regional governments before they can be adequately addressed. For instance, the problems of effective solid waste management do not disappear at the boundaries of a county. Regional bodies that handle specific functions may be the most cost-effective way to supply expensive services needed by the general public. Regional problems may demand more regional solutions.

Privatization is another service delivery option that governments may consider. Although privatization is not appropriate in all cases, it may be an effective alternative method to deliver services. Private-for-profit businesses complete certain tasks more effectively than governments, but governments complete other tasks more effectively than businesses. To assume that privatization is automatically the better option when deciding between the two is to misunderstand the process of governance. Government is a stable force that tends to perform well in managing policy, establishing regulations, ensuring equity, and preventing discrimination. On the other hand, business tends to be more innovative, adapts to change more quickly, abandons unsuccessful or obsolete activities more readily, and performs complex or technical tasks more efficiently. If a government can become more efficient, more effective, or more accountable by putting the delivery of certain public services into private hands, then it may make sense for the government to do so. However, only the delivery of

service, not the responsibility for those services, can be shifted. Even if government contracts for the private sector to provide certain services, the government must still make the policy decisions and provide financing. When local officials decide between privatizing a particular function or continuing to provide the service themselves, they should be careful to consider the full cost of providing the service. Direct costs, as well as indirect costs, should be considered in these decisions.

Governments may also achieve some of their goals by entering into partnerships with private for-profit or nonprofit corporations. The nonprofit or "voluntary" sector is composed of organizations that are privately owned and controlled but that exist to meet social or public needs. Although some of these organizations may accumulate wealth over time, the accumulation of private wealth is not their primary objective. Often this sector of the economy is referred to as the "third sector." This third sector has its own unique characteristics, strengths, and weaknesses, like governments and for-profit corporations. The third sector is best suited to social tasks that promote commitments to the welfare of others, to individual responsibility, or to the community. Activities that require compassion and commitment to other humans, extensive trust on the part of customers, and hands-on personal attention are best done by the third sector. Third sector organizations are ineffective at profit generation and technical innovation; areas where private-for-profit corporations tend to do well. Third sector organizations are also ineffective at policy management and regulation; areas in which governments tend to do well. Currently, third sector organizations deliver many services that are considered to be public or social services. Typical third sector activities include social services, employment and training services, and health services. In addition, government assistance is the most significant source of income for the third sector. When governments stop providing services, especially human services, themselves and rely on other organizations, they tend to rely heavily on third sector organizations.

Governments typically enter into partnerships with private-for-profit corporations for very different reasons. In the past, North Carolina local governments have been authorized, at the discretion of the governing board, to appropriate funds to aid and encourage the location of manufacturing enterprises or other enterprises that will increase the population, taxable property, agricultural industries, and business prospects of a unit of local government. The North Carolina General Assembly passed legislation during the 1993 Session that authorizes local governmental units to lease or convey real property for economic development, taking as consideration the prospective property taxes, sales taxes, and other tax revenues or income that will arise in the next ten years as a result of the conveyance. The governing body of the local governmental unit shall determine that the conveyance of the property will stimulate the local economy, promote business, and result in the creation of a substantial number of jobs that pay wages at or above the median average wage in the county or, for a municipality, in the county in which the municipality is located. The conveyance must also require the company to construct those improvements within five years. Related legislation passed by the General Assembly in the 1993 Session grants local governments additional authority to provide for or assist in making various site improvements on publicly or privately owned property. This related legislation, which is not effective until January 1, 1994, also clarifies a limit on the amount of economic development expenditures that a local government can make in a given year.

Another option that local government officials may consider to increase efficiency and ultimately reduce spending is to develop a policy of increased community involvement. Increased community involvement or "community-owned" government makes the government function a community responsibility and empowers the citizens with ownership of that function, instead of the function being a service provided by professionals. When applied within a police department, the police department no longer merely responds to calls for assistance, but helps communities or neighborhoods solve those problems that underlie and contribute to crime. By building strong relationships with churches, businesses, PTAs, and other community organizations, public safety officers can gather community resources and focus those resources on problems such as school truancy or drug dealing to achieve long-term, lasting results. The concept of community-owned government has also been successfully applied in the areas of public housing, job training and employment, and drug abuse intervention. Community-owned governance can work because communities are more committed to their members and understand those members' problems better than government officials may. Communities also enforce behavior codes more effectively and are more flexible than governments. Over the long-term, community-owned government may ultimately be less expensive because of lower administrative costs. Although the transition to community-owned government is difficult, the results can be dramatic.

In addition to reconsidering the fundamental ways that services are provided, local officials should examine the planning processes used by units of local government. Experts express concern about the short-term budgeting process that is typically utilized by governments. Local officials and managers tend to make decisions based on information about the short-term impact of their decisions. Long-term planning is a tool that governments can use to predict revenue and expenditure levels as well as capital needs over several years. When board members make a decision about service changes, fee revisions, or capital improvements, they make those decisions in a vacuum unless they have some long-term information indicating the impact of their decision on revenues and expenditures over the next five to ten years. Even though long-term projections may not always be accurate, projections may point out problems that may arise in the future. Prediction of potential problems, not accuracy, is the goal of long-term planning.

Local governments should begin their long-term planning process by first establishing a fiscal policy that has been structured around the service delivery options the governing body intends to utilize. A fiscal policy addresses all areas of fiscal management, including revenues and user fees, capital requirements, debt, fund reserve levels, accounting, budgeting, and performance incentives. Once a sound fiscal policy is developed, then the government can accomplish long-term planning within the guidelines that are established by that policy. A comprehensive fiscal policy establishes limits and restrictions for managers on the use of funds and the growth of expenditures, requires estimates of future receipts and disbursements, and coordinates the efforts of managers in practicing sound fiscal management.

First, the revenue section of the policy should establish a method of setting tax rates and estimating tax collections. The revenue policy should indicate the services that will be provided by the unit over the long-term and how much of these services will be financed with user fees. Governments can continue to provide certain services in the face of dwindling resources by charging user fees to help defray the costs of these services. Subject to the General Statutes, any service that is divisible in units and is delivered to an identifiable user may be appropriate for user fee financing. The fiscal policy of the local government should also address the government's long-term capital requirements based upon the services the unit intends to offer. In addition, limits on the amount of debt to be incurred, purposes for which debt may be issued, types of financing arrangements that the unit may enter into, and acceptable financing rates should be included in the debt section of the fiscal policy. Also, the amount of fund reserves that management intends to establish, the sources of the fund reserves, and any minimum or maximum levels of fund reserves should be established in the fiscal policy. Finally, the fiscal policy should establish the monthly and annual accounting reports that will be prepared and provided to the governing board.

In its fiscal policy, a local governmental unit also may establish budgeting policies that allow its department managers some flexibility in handling funds and provide incentives for those managers to reduce their departments' operating costs. By adopting a program budget and giving department managers the option of transferring funds within their departmental budgets, officials give local governmental managers more flexibility, resulting in increased manager accountability for program results. Those same managers may be allowed to keep some or all of the unspent program appropriations at year end by rebudgeting the unspent funds in the subsequent year and accumulating those funds through a designation of fund balance. If managers can later utilize some of these "saved" funds for future capital improvements or equipment that they need for their department, an incentive exists for managers to lower operating costs through cost control.

Also within their fiscal policy, local officials and managers may decide to provide performance incentives to all employees by including a performance incentive plan that is based upon a merit pay plan. A merit pay plan allows local governmental units to reward and retain their best workers, and it encourages employees to improve their job performance. The existence of a performance pay system forces department managers to evaluate the performance of workers and clearly communicate work expectations to their employees. Local governmental officials who feel that permanent pay raises cannot be rewarded due to economic constraints may elect to reward good performance with one-time pay bonuses. As another incentive option, significant operating cost reductions often are realized by governments that utilize employee knowledge and experience by offering the employees cash rewards for any suggestions that significantly reduce operating costs. Governments may form quality control groups to study methods to increase the quality of service delivery or to decrease the operating costs.

After establishing fiscal policies pertaining to its operating environment, local officials are ready to begin the long-term planning process. Using the guidelines set within the policy, officials can develop long-term predictions of how their operation plans will affect revenues and appropriations over the next five to ten years. First, the revenues that the unit of government currently receives or expects to receive over the period of time covered by the plan will need to be projected. Based upon expected service mandates and past experience, the appropriations required to support those services that the government intends to offer can be projected.

Nationwide, governments at all levels have neglected infrastructure needs, and North Carolina is no exception. If the State of North Carolina is to maintain the quality of life for its citizens and continue to attract business development as part of its inevitable economic development, prompt action to meet these needs is essential. Growing infrastructure requirements and numerous financing alternatives necessitate the use of long-term capital planning and the careful consideration by local officials of which financing alternative to use in a given situation. Numerous local governments in North Carolina already utilize capital improvement plans (CIPs), which prioritize projects and identify the intended source of funding for each project. The usual length of time covered by a CIP is five to ten years. When used correctly, a capital improvement plan helps local government officials identify the projects they need to undertake. Increased operating costs such as utilities, supplies or inventory that will be needed, or additional personnel that will accompany the proposed capital improvement, will need to be considered as local governments make capital improvement decisions. Local government officials should be careful to consider these additional operating costs in their capital improvement decision making process.

After the intended capital projects have been prioritized, then various financing alternatives can be matched to the projects to complete the financing plan. Local officials or management will need to analyze the cash

inflows and outflows of a given project, based upon various financing alternatives, and determine the combination of financing alternatives that result in the least total financing costs to the unit. The amount of funds the unit already has on hand, the size of the project, and the life of the proposed asset are just some of the additional considerations that may impact the financing decisions made by local government officials. The process of developing a capital improvement plan is a complex one that involves some use of estimates and assumptions. Once a CIP is initially developed, it is a flexible tool that may be reviewed annually as the operating or legal climate of the local government changes. On a regular annual basis, the CIP should be evaluated and the priority of the various projects and the planned financing methods reconsidered.

In conclusion, increasing costs and sluggish resources will inevitably force all local officials to look for more cost-effective ways to do those things that government has always done. By considering the principles and options discussed in this article, perhaps government officials can begin this long, difficult process. Finding new service delivery options, developing sound fiscal policies structured around these service delivery options, and employing long-term planning techniques that address the impact of their decisions will allow North Carolina local governments to meet their obligations to their citizens for many years to come.

## The State of Tax-Exempt Financing

As one of the last few remaining tax shelters, governmental bonds continue to be an attractive means of financing for local governments. Without tax-exempt financing, the interest rate charged on borrowed funds could increase from 1 to 3%, which would ultimately be paid by utility customers and taxpayers.

Market conditions were favorable for tax-exempt debt during the fiscal year. The Bond Buyer's Index of 20 General Obligation Bonds ranged from a high of 6.62% on November 3, 1992, to a low of 5.47% on March 9, 1993.

## The Basic Functions

### DEBT MANAGEMENT

The Division issues and monitors all State debt secured by a pledge of the taxing power of the State. After the approval of a bond issue and with the assistance of other State agencies, the Division determines the cash needs, plans for the repayment of debt (maturity schedules), and schedules bond sales at the most appropriate time. An official statement describing the bond issue and other required disclosures about the State is prepared with the advice and cooperation of bond counsel. Finally, the Division handles the actual sale and delivery of the bonds, maintains the State bond records and register of bonds, and monitors the debt service payments. At June 30, 1993, the State had general obligation bonds outstanding of $580.7 million. (See Tables 8 and 9.)

The Division also is responsible for the authorization and sale of revenue bonds for the North Carolina Medical Care Commission, the Municipal Power Agencies, the North Carolina Educational Facilities Finance Agency, the North Carolina Housing Finance Agency, the North Carolina Solid Waste Management Capital Projects Financing Agency, and the North Carolina Industrial Facilities and Pollution Control Financing Authority. These bonds are secured only by the specific revenues pledged in payment thereof. The staff works with these agencies' personnel in determining the feasibility and scheduling of the bond offering, in structuring the issue and the underlying security documents, and in preparing the data that must be presented to the Local Government Commission for its approval.

The Division assists the State Treasurer in representing the State in all presentations to Moody's Investors Service, Inc., Standard and Poor's Corporation, and Fitch Investors Service, Inc., the three national bond rating agencies used by the State and local governmental units in North Carolina. The State continues to have a "Triple-A" rating, the highest rating attainable, from all three national rating agencies. Such an achievement is especially notable in the wake of other states being placed on CreditWatch or having their bond ratings downgraded. This favorable rating has enabled the State to sell its bonds at an interest rate considerably below the Bond Buyer's Index, thereby providing tremendous savings to North Carolina's taxpayers.

Probably the most important function of the Division is the approval, sale, and delivery of all North Carolina local government bonds and notes. The Division staff counsels and assists local governmental units in determining the necessity of the project, the size of the issue, and the most expedient form of financing. A review is made of the debt management policies of the unit, the effect of the financing on the tax rate, and the unit's compliance with The Local Government Budget and Fiscal Control Act. Sale dates are scheduled depending on the need for the money, the anticipated interest rates, and the times when the bonds can be sold with a minimum

of competition. The staff strives to resolve all problems and determine that all statutory requirements are met before applications are presented to the Local Government Commission for approval.

After approval is granted, the governmental unit and its bond counsel assist the staff in gathering and assembling information for an official statement, which is mailed to a large group of investment bankers nationwide. The general obligation bonds are awarded through the competitive bid process on the basis of lowest total net interest cost to the governmental unit.

After the sale, the staff delivers and validates the definitive bonds and ensures that the moneys are promptly transferred from the buying brokers to the governmental unit.

In addition to bond sales, the staff assists the units in selling certain short-term debt obligations. These may be bond anticipation notes to provide interim funding of projects until the definitive bonds are sold, or they may be other notes secured by specific pledges of taxes, grants, or future revenues. Authorization for short-term debt obligations also is based upon Local Government Commission approval.

Debt records are maintained for all units on principal and interest payments coming due in the current and future years. All debt service payments are monitored through a system of monthly reports.

At June 30, 1993, authorized and unissued general obligation bonds for local governments amounted to $2,027,740,800; and general obligation bonds outstanding amounted to $4,543,245,233. (See Table 8.) During the 1992-93 fiscal year, bonds and notes were sold in the amount of $2,014,228,880. This is more fully described in Chart 15. Of the $1,400,180,800 of general obligation bonds marketed for local units, $1,348,245,000 were sold competitively at tax-exempt rates averaging approximately 84 basis points below the national average (according to the Bond Buyer's Index), thus saving these local units approximately $11.4 million in interest costs for the first year. Over the life of these bonds, the issuers are expected to save in excess of $102.9 million in interest costs. Such savings are a result, in part, of the Division's successful efforts in maintaining and upgrading the bond ratings of the State and local units and in monitoring the fiscal soundness of the individual local units.

The Division's staff also assists in the sale of revenue bonds, which must have the Commission's approval in order to be issued by municipalities, joint municipal electric power agencies, and county industrial facilities and pollution control financing authorities. These bonds are secured only by specific revenue pledged in payment of the bonds. (See Chart 16.)

Another responsibility of the Division's staff is assisting units that desire to enter into agreements to finance the lease or installment purchase of capital assets. Local Government Commission approval is required when the contract or agreement extends for five or more years; and obligates the unit to pay sums of money to another, without regard to whether the payee is a party to the contract; and obligates the unit to the extent of $500,000 or a sum equal to one tenth of one percent (1/10 of 1%) of the appraised value of property subject to taxation by the unit, whichever is less. Local Government Commission approval also is required when the contract or agreement involves the construction or repair of fixtures or improvements on real property and is not exempted in G.S. 159-148(b).

Before approving such agreements, the Local Government Commission must find that the proposed project is necessary and expedient, the proposed undertaking cannot be economically financed by a bond issue, and the contract will not require an excessive increase in taxes. During the fiscal year ended June 30, 1993, the Local Government Commission approved contracts or other agreements totaling $230.2 million. (See Table 6.)

The Division also serves as staff to the North Carolina Educational Facilities Finance Agency, an agency established by the General Assembly in 1986 and authorized to finance or refinance, construct, provide, or acquire higher educational facilities. This Agency affords private institutions of higher education in the State a measure of assistance and an alternative method for providing needed facilities and structures.

Following initial contact from a college/university, the staff generally begins the process of determining project feasibility and desirability with a preliminary conference. Upon receipt of an application, the financial capability and responsibility of the college/university is reviewed through ratio and trend analysis. The staff presents the project and its recommendations to the seven-member North Carolina Educational Facilities Finance Agency and subsequently to the Local Government Commission for approval. (All debt issued by the Agency also must be approved by the Local Government Commission.)

Chart 15

## PURPOSES FOR WHICH LOCAL GOVERNMENTS SOLD BONDS AND NOTES

Fiscal Year 1992-93

| | Schools | Utilities | Other | Total No. | Total Amount |
|---|---|---|---|---|---|
| **G. O. Bonds** | | | | | |
| Counties | $181,870,000 | $ 28,211,000 | $ 510,340,000 | 34 | $ 720,421,000 |
| Municipalities | — | 83,326,800 | 531,115,000 | 43 | 614,441,800 |
| Districts and Authorities | — | 8,728,000 | 56,590,000 | 7 | 65,318,000 |
| Total G. O. Bonds | 181,870,000 | 120,265,800 | 1,098,045,000 | 84 | 1,400,180,800 |
| **Revenue Bonds** | | | | | |
| Counties | — | — | 61,168,200 | 2 | 61,168,200 |
| Municipalities | — | 76,075,000 | 107,900,000 | 5 | 183,975,000 |
| Districts and Authorities | — | 6,000,000 | 290,435,080 | 5 | 296,435,080 |
| Total Revenue Bonds | — | 82,075,000 | 459,503,280 | 12 | 541,578,280 |
| **Special Obligation Bonds — Solid Waste** | | | | | |
| Counties | — | — | 15,000,000 | 5 | 15,000,000 |
| Municipalities | — | — | — | — | — |
| Total Special Obligation Bonds | — | — | 15,000,000 | 5 | 15,000,000 |
| **Notes** | | | | | |
| Bond Anticipation Notes | 3,750,000 | 43,194,030 | 10,525,770 | 23 | 57,469,800 |
| Total Notes | 3,750,000 | 43,194,030 | 10,525,770 | 23 | 57,469,800 |
| Total Bonds and Notes | $185,620,000 | $245,534,830 | $1,583,074,050 | 124 | $2,014,228,880 |

Chart 16

## DEBT MANAGEMENT ACTIVITIES - STATE AND LOCAL

(In Millions of Dollars)

| | FY 1992 - 93 No. | FY 1992 - 93 Amt. | FY 1991 - 92 No. | FY 1991 - 92 Amt. | FY 1990 - 91 No. | FY 1990 - 91 Amt. |
|---|---|---|---|---|---|---|
| Bonds Sold for State | | | | | | |
| G. O. Bonds (General Fund) | — | — | 2 | $ 157.5 | 1 | $ 75.0 |
| Total | 0 | 0.0 | 2 | 157.5 | 1 | 75.0 |
| Bonds and Notes Sold for Local Governmental Units: | | | | | | |
| G. O. Bonds | 84 | 1,400.2 | 83 | 1,138.2 | 78 | 634.0 |
| Revenue Bonds | 12 | 541.6 | 9 | 169.5 | 10 | 304.7 |
| Special Obligation Bonds — Solid Waste | 5 | 15.0 | 1 | 6.5 | 3 | 10.3 |
| Notes | 23 | 57.5 | 28 | 59.4 | 41 | 144.4 |
| Total | 124 | 2,014.2 | 121 | 1,373.6 | 132 | 1,093.4 |
| Bonds Sold for: | | | | | | |
| Medical Care Commission: Revenue Bonds | 11 | 587.8 | 10 | 278.4 | 12 | 430.9 |
| Housing Finance Agency: Revenue Bonds | 1 | 8.1 | 4 | 202.8 | 2 | 107.0 |
| Power Agencies: Revenue Bonds | 5 | 3,654.0 | 1 | 446.7 | 1 | 284.8 |
| Industrial Facilities and Pollution Control Financing Authorities: Revenue Bonds | 9 | 91.7 | 2 | 33.4 | 20 | 90.0 |
| Educational Facilities Finance Agency: Revenue Bonds | 3 | 62.9 | 2 | 27.5 | 3 | 77.7 |
| Total | 29 | 4,404.5 | 19 | 988.8 | 38 | 990.4 |
| Grand Total | 153 | $6,418.7 | 142 | $2,519.9 | 171 | $2,158.8 |

## FISCAL MANAGEMENT

An important function of the Division is monitoring certain fiscal and accounting standards prescribed for local governmental units by The Local Government Budget and Fiscal Control Act. As a part of its role in assisting local units and monitoring their fiscal programs, the Division provides assistance to them in following generally accepted accounting principles. The Local Government Budget and Fiscal Control Act requires each unit of local government to have its accounts audited annually by a Certified Public Accountant or by an accountant certified by the Commission as qualified to audit local government accounts. Because of recent changes in the field of governmental accounting and the enactment of the Federal Single Audit Act and the State Single Audit Act, the Division has had a particularly complex task in monitoring annual audit reports for compliance with generally accepted accounting principles and single audit disclosure requirements.

To carry out these responsibilities, continuing assistance is provided to the independent auditors of local governments, particularly in the area of professional education. Several members of the staff serve on the Governmental Accounting and Auditing Committee of the North Carolina Association of Certified Public Accountants (NCACPA). The staff helps prepare and instruct several continuing professional education courses in governmental accounting and auditing. These are presented several times annually to independent auditors through the auspices of the NCACPA. In addition, all exposure drafts of the Governmental Accounting Standards Board are analyzed, and the staff's comments and recommendations on these drafts are submitted to this Board.

In providing assistance to local governments, units are counseled in accounting systems and internal controls, treasury and cash management, budget preparation, changes in laws and regulations, and investment policies and procedures. On-site assistance is furnished to local governments with regard to financial and accounting systems and management services. Educational programs, in the form of seminars or classes, also are provided in order to accomplish these tasks. Staff members make presentations throughout the year at various workshops sponsored by the Institute of Government; the finance officers' associations; the Association of Government Accountants; the N.C. Local Government Investment Association; and numerous other county, municipal, and school organizations.

The Division has expanded its assistance role by maintaining computerized databases of historical information from local government audit reports, city and county Annual Financial Information Reports, and Reports of Cash Balance. The information collected is used in a variety of ways to automate operations and enhance the assistance provided to local governments. The files also are utilized in special projects that benefit the operations of the State. Upon request, data is provided to such organizations as the U.S. Bureau of the Census, the N.C. Department of Revenue, the General Assembly, the N.C. League of Municipalities, the Institute of Government, and the N.C. Association of County Commissioners to assist these groups in their activities.

# Significant Accomplishments

## DEBT MANAGEMENT

**Installment and Lease Purchase Agreements** — The installment and lease purchase method of financing continues to be used by local governments, typically for smaller projects for which a bond referendum is not cost effective and for essential projects for which units of government face mandates. The number of units using this alternative financing method increased from 60 units to 91, while the dollar volume increased from $197.2 million in 1991-92 to $230.2 million in 1992-93. (See Table 6.)

**Hospital/Health-Care Financings** — The expectation that the heightened activity and magnitude of hospital/health care financing would continue through the 1992-93 fiscal year was realized. New projects for public and private hospitals and continuing care facilities plus refunding issues to obtain lower interest rates all contributed to the sustained activity. Total financings amounted to over $908 million (15 projects) compared to $302 million in 1992 (13 projects) and $555 million (17 projects) in 1990-91. Issues for the North Carolina Medical Care Commission totaled $587.8 million, all for private hospitals (11 projects). Public hospitals accounted for $321 million (4 projects) at year-end. The largest single hospital issue ever offered in this State ($252 million for Charlotte-Mecklenburg Hospital Authority) was closed during this fiscal year.

**Capital Appreciation Bonds** — Legislation passed by the General Assembly in 1987 authorized the sale of these bonds with a primary goal of assisting people wishing to provide funds to educate children. The bonds, which can be purchased at a discount, accumulate value until maturity rather than paying interest each year. Investors have actively pursued these bonds because of their attractive features for educational and other purposes. During the year, six financings included a total of approximately $114.6 million in capital appreciation bonds.

**Volume Cap Allocation** — Legislation was approved by the 1987 Session of the General Assembly to maintain a State pool of the federal volume cap from which

projects could be approved, thus giving maximum flexibility in use of the volume cap. For the calendar year 1993, the State was allotted $336.8 million to use for private activity bonds. In 1994, the volume cap is expected to remain the same.

**"Triple-A" General Obligation Bond Ratings** — A "Triple-A" general obligation bond rating is the highest attainable and reflects strengths in debt position, economic base, administrative variables, and financial performance. Standard & Poor's rating agency has assigned "Triple-A" general obligation long-term debt ratings to states, counties, and cities throughout the entire United States; and approximately one out of every four of those are North Carolina units. The following North Carolina units have "Triple-A" bond ratings issued by Standard & Poor's: the State of North Carolina; the counties of Durham, Mecklenburg, and Wake; and the cities of Charlotte, Durham, Greensboro, Raleigh, and Winston-Salem. In addition, the Special Airport District of Durham and Wake Counties also enjoys a "Triple-A" rating. To quote from Standard & Poor's Credit Surveys: "The 'AAA' General Obligation rating for cities, counties, and states indicates that very high standards have been achieved and maintained."

**North Carolina Educational Facilities Finance Agency** — The North Carolina Educational Facilities Finance Agency (NCEFFA), created in 1986 by the General Assembly, provides the benefits of tax-exempt financing to nonprofit, private institutions of higher education in the State of North Carolina. This can mean considerable savings in interest costs for these institutions over the life of a bond issue. Most capital projects undertaken by a college or university can be financed through the Agency except for items that are customarily deemed to be current operating charges, facilities used as a place of religious worship, and facilities used by a department of divinity for any religious denomination.

Thus far, the Agency has provided over $357 million in capital financing for eight different colleges/universities. During 1992-93, the Agency issued $25,140,000 for Davidson College which refunded the 1987 bond issue providing interest rate savings to the College and $7 million in new money for a current project. In addition, the Agency sold $35,240,000 in bonds for Duke University and $2,500,000 for Mars Hill College.

**North Carolina Clean Water Revolving Loan and Grant Funds** — The North Carolina Clean Water Revolving Loan and Grant Fund was established by the 1987 General Assembly to provide low-interest loans to local governments constructing or improving upon water and sewer operations. Demand for the funds has far exceeded the amount appropriated. The intent is for this Fund to become self-perpetuating and for a permanent water and sewer loan fund to be made available.

The staff is responsible for reviewing the applicant's fiscal/debt management policies; determining the feasibility of the project; and coordinating the loan offers with the Department of Environment, Health, and Natural Resources. Maturity schedules are prepared for each loan, and the staff oversees the signing of the promissory notes.

In 1992-93, a total of seven units were selected to receive loans ranging from $125,000 to over $5 million. From our review, there was no evidence that these seven successful applicants would have been excluded from selling general obligation bonds in the marketplace. (See Table 7.)

**Special Obligation Bonds** — The Local Government Commission sold special obligation bonds for five local governments in North Carolina pursuant to Chapter 159I of the General Statutes. Chapter 159I seeks to encourage and assist units of local government in providing solid waste collection and disposal through creating the North Carolina Solid Waste Management Capital Projects Financing Agency, creating the Solid Waste Management Loan Fund, and enabling financing of solid waste projects by units through the issuance of special obligation bonds and notes, without proceeding through the Agency.

Each unit of local government may agree to apply to the payment of a special obligation bond or note any available source or sources of revenues, except taxes, of the unit and, to the extent the generation of the revenues is within the power of the unit, to enter into covenants to take action in order to generate the revenues. The agreement to use such sources to make payments or such covenants to generate revenues does not constitute a pledge of the unit's taxing power.

Each of the five special obligation issues sold in 1992-93 provided funds for the issuing County to build a lined landfill cell including the leachate collection system. Other smaller projects included the construction of a maintenance facility, a recycling facility and equipment. Bonds were sold for Iredell ($3,770,000), Madison ($730,000), Wilkes ($3,000,000), Haywood ($4,500,000), and Lincoln ($3,000,000) counties. Interest rates ranged from 2.75% to 6.20%.

## FISCAL MANAGEMENT

**Policies Manual Updated** — The staff worked on updates to the policies included in the policies manual for units government. These updates incorporated additional information, including: 1) applicable legislative changes and new legislation enacted since the currently used policies were written, 2) information included in the Division's memoranda, publications, and technical memoranda, 3) accounting changes that have been mandated and/or suggested by authoritative bodies (e.g., GASB, FASB, GAO, etc.).

The following policies are included in the policies manual: Nine-Digit Chart of Accounts; Alternate Seven-Digit Chart of Accounts; Budgeting; Revenue Sources; Fixed Assets; Inventories; Cash Management and Investment Policy Guidelines; Purchasing; Travel; Tax Assessment, Billing, and Collection; Ledgers and Journals; Interim Financial/Management Reporting and Monthly Closings; Annual Audit and Financial Reporting; Grants and Grant Accounting; Internal Controls; Cash Management; Payroll; User Fees; Insurance and Risk Management; General Obligation Debt; and Miscellaneous Topics.

**Local Government Statistical Profiles Issued** — The staff completed the Fiscal Summary of North Carolina Counties and the Fiscal Summary of North Carolina Municipalities, which provide comparative financial information for county and municipal governments. The summaries are the result of a joint effort by the Department of State Treasurer, the Association of County Commissioners, and the League of Municipalities to present a collection of financial data for analysis by local government officials. These summaries are targeted primarily towards elected and appointed officials of local governments for use during the annual budget process. The use of graphs should enhance the summaries' usefulness to board members, the general public, and the news media.

The Fiscal Summary of North Carolina Counties is organized into three sections to facilitate different levels of analysis. The first section presents a financial overview of county governments for the last five fiscal years, including statewide and population grouping statistics. The second section provides comparative financial information for individual local governments primarily through the use of graphs. It includes information about their revenues, expenditures, property taxes, and available fund balance. The last section provides a summary of supplemental tax levies for local school districts.

The Fiscal Summary of North Carolina Municipalities is more summarized. The first section presents a financial overview of municipal governments for the last five fiscal years, including statewide and population grouping statistics. The second section provides comparative financial information for those municipalities with a population of 5,000 and above.

All of the above information will assist in comparing current operations of a local government to its own past performance, to similar local governments, and to statewide averages. Comparisons should identify inefficiencies, areas of excess expenditures, and untapped revenue sources. These publications are updated on an annual basis.

**The North Carolina Cash Management Trust** — The balance of the Cash Portfolio in the North Carolina Cash Management Trust (NCCMT) declined approximately 20% from June 30, 1992 to June 30, 1993. At fiscal year-end, the Cash Portfolio totaled $1.30 billion, while the Term Portfolio had a year-end balance of $80 million. There were 518 participants in the Cash Portfolio at June 30, 1993, as compared to 510 one year earlier. The number of participants in the Term Portfolio was 111 at June 30, 1993, as compared to 106 one year earlier. The NCCMT is one of the largest local government investment pools in the nation.

The amount of funds transferred over the Governmental Moneys Transfer System (GMTS) for the fiscal year ended June 30, 1993, was $1.84 billion, representing an 11% increase over the prior year. This system provides for an efficient transfer of funds between the State and local governments and ensures that moneys are immediately invested, resulting in no loss of interest earnings. These distributions consisted of sales and use taxes, utility franchise taxes, Powell Bill funds, intangibles taxes, and various other taxes and programmatic revenues.

**State Treasurer's Electronic Payments System (STEPS)** — A new program was implemented in April 1991 for remitting monthly retirement contributions to the State. The "State Treasurer's Electronic Payments System" (STEPS) program utilizes the federal government's Automated Clearing House (ACH) system for remitting retirement payments. Under this program, the participating units have the option of using a local bank account or a North Carolina Cash Management Trust (NCCMT) account for the monthly submission of their retirement payments.

**Review of Semi-annual Reports of Cash Balance** — The semi-annual Reports of Cash Balance for the six months ended June 30, 1992, and December 31, 1992, submitted by local governments and public authorities, were examined by the staff of the Division. The reports were reviewed to determine strengths and weaknesses in the units' investment portfolios and to identify instances of noncompliance with the North Carolina General Statutes. Weaknesses were communicated in writing to the units along with suggestions for improvement.

**Financial Section of Bond Offering Statements** — The staff prepared or assisted in the preparation of the financial section of over 70 bond offering statements during the fiscal year. The purpose of the financial section of a bond offering statement is to provide users with several years' financial information about a unit of local government. In order to be most meaningful, the presentation of this multi-year information must be consistent in its application of generally accepted accounting principles (GAAP), a particular unit's accounting policies, and the requirements of the General Statutes.

The financial section of a local government's bond offering statement includes 1) a copy of the unit's most recently audited and issued general purpose financial statements, including the notes; 2) compiled financial statements of the individual funds of the unit for the

three most recent fiscal years, also including notes; and 3) current fiscal year compiled statements of the annually budgeted funds of the unit.

The preparation of the financial section of bond offering statements requires a careful analysis and can become very complex. First, the staff reviews the most recent year's general purpose financial statements for presentation in accordance with GAAP and compliance with North Carolina statutes, and sometimes requests that changes be made in order for the statements to be of the highest possible quality. Next, the staff presents compiled financial statements for the three most recent fiscal years, for which adjustments must often be made for changes in presentation, changes in GAAP, or corrections of errors. Any material adjustments made are fully disclosed in the notes to the compiled financial statements. Finally, the staff, with some assistance from the unit, compiles the unit's current year annually budgeted funds into a concise statement organizing the revenues and the appropriations into a format that resembles the unit's audited financial statements.

**Analysis of Official Pronouncements** — Each year the staff responds to proposed changes or additions in accounting standards that would eventually affect State and local government financial reporting. The majority of such changes are issued by the Governmental Accounting Standards Board (GASB), which has the authority to set generally accepted accounting principles (GAAP) for state and local governments. The purpose of the staff's responses is to provide input into the development of governmental accounting standards in light of the impact they would have on North Carolina local governments and the State as well. During the past year, the staff analyzed proposed GASB standards dealing with accounting for municipal solid waste landfill closure and postclosure care costs, accounting and financial reporting for proprietary funds and governments that use proprietary fund accounting, accounting for escheat property, grant accounting, service efforts and accomplishments reporting, college and university accounting, popular reporting, and proposed Statements of Position of the American Institute of Certified Public Accountants (AICPA). The staff also served on a task force and provided comments on an implementation guide for reporting standards regarding deposits and investments.

**Instructional Support for Continuing Education Courses and Conferences** — Staff members spoke at more than 45 continuing education courses and conferences sponsored by organizations such as the Institute of Government in Chapel Hill, the North Carolina Public Finance Officers Association, the County Finance Officers Association, the North Carolina Association of Budget and Evaluation Professionals, the North Carolina Local Government Investment Association, and the North Carolina Association of Certified Public Accountants (NCACPA) as well as various regional chapters of the NCACPA. Instruction was provided by the staff at the beginning, intermediate, and advanced levels for a wide range of local government employees and board members as well as independent auditors of local governments.

Audit Manual for Governmental Auditors — The audit manual is issued to CPAs performing governmental audits in North Carolina. It contains the following: references to authoritative sources and literature, sample internal control questionnaires and audit program guides, illustrative financial statements (for a municipality, a county, a county board of education, a housing authority, and a soil and water conservation district), sample independent auditor's reports and single audit reports, memoranda and publications, and compliance supplements written by State agencies for various federal and State grants. The State Single Audit legislation mandates the preparation of compliance supplements by State agencies, their review and approval by the State Auditor, and issuance by the Division. In addition, the manual is updated each year to reflect the pronouncements of the GASB and Statements of Position of the AICPA issued during the year and other newly available information.

**Audit Review Process** — The staff of the Division annually reviews the audit reports of approximately 1,000 units of local government. Each review consists of the following: an analysis of proper presentation of the financial statements in accordance with generally accepted accounting principles; an analysis of proper reporting in accordance with single audit requirements, where applicable; and an evaluation of the financial condition of the unit and its compliance with The Local Government Budget and Fiscal Control Act as well as other State laws. As a follow-up to reviews where problems are noted, local governments and public authorities, as well as their independent auditors, receive written communication expressing the staff's concerns, suggestions for improvements, and an offer of further assistance if needed. The written communications also refer the recipients to specific sections of the Department of State Treasurer Policies Manual that provide assistance in the noted problem areas. A response detailing the unit's plans to take corrective action is requested. Approximately 300 of these letters were sent to units of local government during the 1992-93 fiscal year.

As a part of the audit review process, the Division's staff reviewed approximately 700 single audits. An extensive review is performed to ensure that audits performed under the Federal and State Single Audit Acts meet all the provisions of the law as well as federal and State requirements. This is necessary before auditors' invoices can be approved so that State departments and agencies can rely on the reports as a basis for compliance with applicable federal and State regulations. Because of the complexity of the single audit reports, a draft review process has been implemented to provide guidance to auditors before the final reports are issued. During 1992-93, approximately 300 drafts were reviewed.

**Memoranda and Other Publications** — A significant service provided by the staff of the Division is the preparation and distribution of memoranda to units of

local government and their independent auditors. These memoranda, which are of an informational, technical, or statistical nature, are distributed to finance officers, elected officials, and independent auditors periodically throughout the year.

Several topics of particular interest in the accounting and governmental communities included findings based on the staff's review of the previous year's audits, issues related to the prior year's single audits, required pension note disclosures for 1993 audited financial statements, common engagement deficiencies found in external quality control reviews, changes in procedures regarding contracts to audit accounts of invoice approvals and draft report reviews, and the collateralization of public deposits. The LGC Bulletin, which is prepared annually and contains information on a variety of topics, was published in June, 1993.

Other memoranda distributed by the staff throughout the year contain statistical data of use to the governmental units, their independent auditors, and elected officials. Examples include a report and analysis of cash and taxes of governmental units as reported at June 30, 1992; reports on hospital operations and funding and county spending for public school capital outlay; statistical information on electric system operations; statistical information on the ability of municipalities to finance future capital improvements of water and sewer systems; and a comparison of local expenditures for the two fiscal years ended June 30, 1991, and June 30, 1992, for those school systems receiving supplemental low wealth and small school system funding in the fiscal year ended June 30, 1992. Governmental units may use these reports to compare their operations to those of other units of like size or geographic location, or to statewide averages. Independent auditors use this information to assist in the audit process. Several of these reports are required by the General Statutes of North Carolina to be prepared by the Local Government Commission and provided to the General Assembly.

Another publication updated annually is the Illustrative Comprehensive Annual Financial Report (CAFR), prepared in cooperation with the Institute of Government in Chapel Hill. The illustrative CAFR is utilized as supporting material for educational programs conducted by the Institute.

State Treasurer's Governmental Accounting/Financial Management Awards Program — The fourth annual "State Treasurer's Governmental Accounting/Financial Management Awards Program" was sponsored this year. This awards program was designed to recognize units of government that have enhanced their current operations through the implementation of new and improved accounting and financial management programs.

Fifteen entries addressing a variety of topics were submitted for this year's awards program. The applications were evaluated by the Governmental Accounting and Auditing Committee of the North Carolina Association of Certified Public Accountants. The awards are presented by a representative of the Department during board meetings of the individual units.

The awards program benefits applicant units that are recognized for their efforts and accomplishments. Also, an exchange of ideas between local governments occurs as a result of the publicity surrounding this program. Application forms are mailed annually to all local units of government, and the deadline for submiting an entry is December 1.

Review of Revenue Bonds — The staff developed a microcomputer program that identifies when reports and other documentation from revenue bond issuers are due, indicates items to be checked for compliance with bond covenants, and ensures prompt follow-up of late or missing documents. The automation of this program has enhanced the Division's procedures for reviewing reports submitted by issuers of revenue bonds.

## PROJECTS IN PROGRESS

Policies Manual Update — The staff will continue to work on updates to be included in the policies manual.

Arbitrage Requirements for State Bonds — In order to preserve the tax-exempt status of five general obligation bond issues of the State that are currently outstanding, the staff continues to work on several projects that are necessary to ensure compliance with arbitrage regulations of the Internal Revenue Service. The projects involve monitoring investment yields, monitoring of penalties in lieu of rebate requirements, preparing monthly status reports on each bond issue, and preparing information for use by bond counsel and other outside professionals who in turn provide technical assistance to the staff.

Guide to Note Disclosure — The staff is working with the Government Finance Officers Association (GFOA) to prepare a publication that will provide examples of footnote disclosures for governmental units. GFOA will publish A Preparer's Guide to Note Disclosure during the upcoming fiscal year. By year end, the staff of the Local Government Commission had reviewed more than twenty proposed footnotes.

Analysis of Governmental Accounting Standards Board Pronouncements — The staff is in the process of reviewing and responding to a number of proposed GASB pronouncements. This is expected to be a time-consuming process because significant changes in governmental financial reporting are expected in the next

several years. The staff also is researching the impact of a new financial reporting entity standard on North Carolina and its local governments and will provide guidance to assist financial statement preparers in implementing this accounting standard in the coming months.

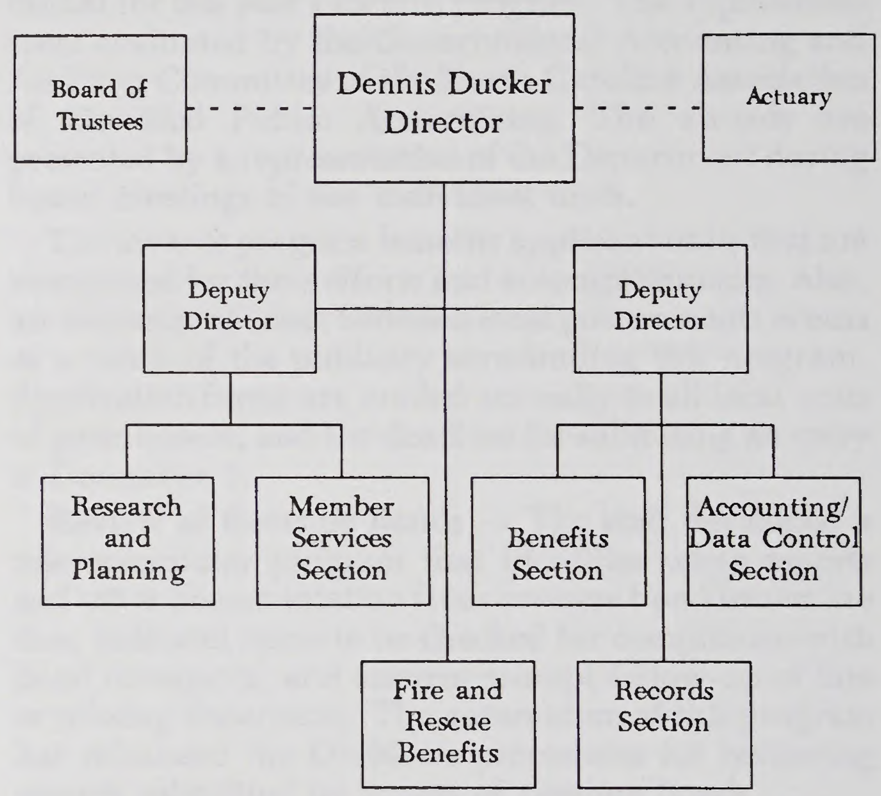
**Continuing Disclosure of Information** — The staff is closely following the Municipal Securities Rulemaking Board's proposals for a system to provide for the continuing disclosure of information for municipal bond issuers. The Division expects to be heavily involved in the implementation of this system for North Carolina bond issuers in the next several years.

State Treasurer's Electronic Payments System (STEPS) — Enhancements are being added to the electronic transfer system which will eventually result in the Governmental Moneys Transfer System (GMTS) being replaced with STEPS. STEPS is already available to local governments, allowing them to remit payments to the Retirement System through STEPS-IN. An added feature allowing payments to be made <u>from</u> State agencies to local governments will be available soon and will be known as STEPS-OUT.

# Retirement Systems Division

## Organization

The Retirement Systems Division of the Department of State Treasurer administers the statutory retirement and fringe benefit plans, as authorized by the General Assembly of North Carolina, which cover the State's public employees. The administration of the several retirement systems requires a high level of fiduciary responsibility for the employees' trust funds with prudent, honest and efficient use of employees' and taxpayers' contributions. The public purpose of the existence of retirement systems and benefit plans is to recruit and retain competent employees for a career in public service, and provide a replacement income for retirement, disability, or at death for an employee's survivors. The organizational structure herein shows the functional arrangement of the tasks performed in this Division.




## Operational Highlights

- Presented recommendations and draft legislation to the 1993 Session of the General Assembly which resulted in the enactment of laws to: (1) increase in the Teachers' and State Employees' Retirement System the defined benefit accrual rate from 1.70% to 1.71% with a corresponding benefit adjustment on account of same to retirees of that retirement system equal to 0.6%; (2) provide cost-of-living adjustments to retirees of all retirement systems equal to 1.6%; (3) amend the laws that required the cancellation of accumulated annual vacation leave accruing to public school personnel and State employees beyond 30 days (240 hours) so as to allow the excess to be converted to sick leave with the converted sick leave to be treated in the same manner as regular sick leave, including the allowance of additional creditable service for same at retirement; (4) provide that in the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, and the Legislative Retirement System, the total payout from a retired member's account shall not be less than his/her personal contributions plus interest; (5) modify in those three retirement systems the optional payment arrangements available in retirement; (6) amend the laws relative to the return of members' personal contributions (lump-sum distributions) in all retirement systems to comply with the Internal Revenue Code provisions applicable to withholding/rollover rules and the diversion of member contributions on account of the overpayment of salary or embezzlement of fees; (7) amend the law to allow rollovers from other qualified retirement plans to the State 401(k) Plan; and (8) amend the laws governing the Firemen's and Rescue Squad Workers' Pension Fund so as to: (i) reduce the number of board members from seven to six; and, (ii) allow the purchase of prior service credits by fund members.
- Developed and installed several new computer programs which enhanced processing and response capabilities.
- Increased utilization of direct deposit of monthly benefit payments from 65,922 to 72,354 retirees.
- Established approximately 37,500 new active member accounts.
- Processed benefits for 6,667 new retirees.
- Processed refunds for 16,626 former employees.

# The Basic Functions

The retirement systems administered by this Division are the:

- **Teachers' and State Employees' Retirement System**
- **Local Governmental Employees' Retirement System**
- **Consolidated Judicial Retirement System**
- **Legislative Retirement System**

The systems are governed by two boards of trustees. The State Treasurer is ex-officio chairman of each board. The board of the Teachers' and State Employees' Retirement System is composed of 14 actively working employees, retirees and public members. The Local Governmental Employees' Retirement System Board, while legally separate, is composed of the same 14 members plus 3 members representing local governments. The Board of Trustees of the Teachers' and State Employees' Retirement System is the governing board of the Consolidated Judicial and Legislative Retirement Systems and all of the other programs listed herein, except for the Firemen's and Rescue Squad Workers' Pension Fund. That fund is governed by a board of trustees, of which the State Treasurer is ex-officio chairman, and is composed of six members including actively working employees, volunteers, and a public member.

In addition to the retirement systems administered through this Division, responsibility for administration of other programs covers the:

- **Firemen's and Rescue Squad Workers' Pension Fund**
- **Public Employees' Social Security Agency**
- **Disability Income Plan**
- **Legislative Retirement Fund**
- **National Guard Pension Plan**
- **Teachers' and State Employees' Benefit Trust**
- **Supplemental Retirement Income Plan**
- **Registers of Deeds' Supplemental Pension Fund**
- **Contributory Death Benefit for Retired Members**

All retirement systems and other programs administered by this Division are operated on a calendar year basis from January 1 to December 31, rather than the State's fiscal year, except for the Firemen's and Rescue Squad Workers' Pension Fund. For this reason, much of the data shown for the Division are for the captioned year ending December 31.

The administrative expenses of the Division for the retirement systems are paid by receipts from the systems based on the ratio of members in each system to the total universe of members of all systems. Receipt support from other programs pays for their cost of administration, based on a cost-center analysis, except for the Firemen's and Rescue Squad Workers' Pension Fund which is supported by direct appropriation of the General Assembly.

## GENERAL ADMINISTRATION

The Director and his immediate staff are responsible for the overall general operation of the Division, and carry out the policies and directives of the State Treasurer and the governing boards. They provide: assistance to legislators and committees of the General Assembly, including the drafting of proposed legislation and the acquisition of actuarial notes for introduced bills; response to news media inquiries; action on administrative appeals by individual members of the retirement systems; a working relationship with associations and organizations of employees and employers; and information to State departments, agencies and institutions, and local governments. The staff provides assistance to local governments for Social Security coverage and acts as liaison between the State and the Social Security Administration. The staff also performs planning and research functions, and directs special projects.

## BENEFITS SECTION

This Section is responsible for the administration and determination of eligibility for monthly retirement allowances for all retirement systems governed by the boards of trustees and administered by this Department. Responsibilities include the calculation and processing of payments of all retirement allowances under the various systems.

The calculation of monthly retirement estimates for future retirees is also a duty of this Section. Responsibilities include service and salary projections to an anticipated date of retirement.

The administration and determination of disability benefits through the Systems' Medical Board under the provisions of the Disability Income Plan for teachers and State employees, and the determination of eligibility for disability benefits from the other retirement systems are incumbent upon this Section. Responsibilities include the calculation and payment of monthly disability benefits as well as the calculation and payment of reimbursements for short-term disability benefits paid by the various employers under the provisions of the Disability Income Plan.

The various death benefit programs related to the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, and the Separate Insurance Benefits Fund are managed by this Section. Responsibilities include the calculation and payment of death benefits, return of member contributions, survivor alternate benefits, and other lump-sum payments. Beneficiary changes for deceased retired

members, who selected an optional payment plan at retirement that provides for a beneficiary after death of the member, are handled here also.

This Section is responsible for the administration of the Contributory Death Benefit Plan for Retired Members including the notification of eligibility under the Plan, enrollment of members electing coverage, collection of the required contributions, and payment of the death benefits.

This Section is also responsible for the calculation and the payment of returns of accumulated contributions to terminated employees.

The calculation of service purchase costs under the provisions of the various retirement systems administered by this Division is handled by this Section.

## ACCOUNTING/DATA CONTROL SECTION

Maintaining the accounting records for the retirement systems is the responsibility of this Section. Another major responsibility of this Section is receiving and processing payroll contribution reports from some 1,600 participating State and local units of government. Contribution information from these payroll reports is electronically posted to the individual accounts for some 400,000 members.

A brief description of the other functions performed by this Section are as follows:

**Retirees' Insurance** — Receipt and processing of enrollment applications and coverage change requests for more than 74,000 retirees.

**Direct Deposit Accounts/Address Changes** — Receipt and processing of Electronic Funds Transfer account applications and changes to direct deposit accounts. Approximately 72,000 retirees' benefits are processed through EFT. Also, all address change requests for retirees are processed in this Section.

**Batch Posting and Systems Transfers** — Depositing and recording of special member contributions and transfer of funds between systems.

**Error Checking** — Correction of errors detected by computer edit in the processing of employers' payroll reports. Over 30,000 errors are detected and corrected in a typical year.

## MEMBER SERVICES SECTION

This Section handles written and telephone communications with members and employers participating in the retirement systems and other benefit programs, responding to myriad questions about fringe benefits. Accordingly, during the past year approximately 43,500 letters were written in this Section and approximately 203,000 telephone communications were handled. In addition, annual preretirement planning seminars are conducted by the staff of this Section, as well as retirement and fringe benefit conferences at the request of employers, and employee associations. All visitors to the Division requiring individual counseling about their benefits are referred to this Section. More than 5,300 persons were interviewed during the past 12 months.

Another important function of this Section is coordinating the participation of local government employers electing to become members of the Local Governmental Employees' Retirement System. This involves meetings with local governing bodies, collecting data for transmission to the Systems' consulting actuary, enrollment of eligible employees and explanation of monthly reporting procedures. Ancillary to this function is assistance to local governments in the adoption of tax shelter and death benefit coverage agreements.

## RECORDS SECTION

The Records Section is primarily responsible for the creation, maintenance, storage, and distribution of files for individuals who are currently, or have been at one time, members of any of the State-administered retirement systems. The Records Section is the only section with direct access to member records.

The Records Section currently maintains approximately two million records. The records are maintained in the form of jacketed microfiche, and are stored in seven power file cabinets in the Records Section. There are currently about 500,000 jacketed microfiche files, each of which contains copies of all documents pertaining to the members' accounts.

# Significant Accomplishments

## LEGISLATION

Prior to the convening of the 1993 Session of the General Assembly, the Director and staff identified all proposals for benefit enhancements and changes recommended by the various associations of educators, employees and retirees. Also identified were measures to enhance administrative ability. Cost estimates for the

recommendations were acquired from the Division's consulting actuary. The staff then assisted the State Treasurer and the retirement systems' boards of trustees in the formulation of their legislative recommendations.

During the 1993 Session, the Director and staff provided technical assistance and bill drafting services for the standing Senate and House Committees on Pensions and Retirement and communicated the boards of trustees' recommendations. The staff also acquired, as provided by State law, 48 actuarial notes disclosing the fiscal impact of every bill introduced which affected a State-administered retirement system or pension plan.

Recommendations of benefit and administrative enhancements by the boards of trustees which were acted upon favorably by the General Assembly were to: (1) increase in the Teachers' and State Employees' Retirement System the defined benefit formula accrual rate from 1.70% to 1.71% of average final compensation multiplied by a member's creditable service for Early and Service retirement; (2) provide in the Teachers' and State Employees' Retirement System for an adjustment, on account of the above formula increase, to or on account of beneficiaries on the retirement rolls as of June 1, 1993, equal to 0.6% of the June allowance; (3) provide, effective July 1, 1993, in the Teachers' and State Employees' Retirement System, Local Governmental Employees' Retirement System, Consolidated Judicial Retirement System and Legislative Retirement System, a 1.6% post-retirement increase in the allowances of beneficiaries in receipt of allowances on and before July 1, 1992, and for beneficiaries who commenced retirement with effective dates of August 1, 1992, to June 1, 1993, a prorated portion of the 1.6% post-retirement increase in their allowances based on the number of months a retirement allowance was paid; (4) provide in the Teachers' and State Employees', Local Governmental Employees', and the Legislative Retirement Systems that, under all retirement payment arrangements, should a retiree (or retiree and surviving beneficiary under a monthly survivorship arrangement) die before the total monthly retirement allowances paid equals the amount of the retiree's contributions and interest, then the balance of his/her contributions and interest will be paid in a lump-sum to the person(s) designated by the retiree or otherwise to the retiree's estate (prior to these changes, the member's election of a guaranteed return of accumulated contributions under the affected options required a reduction in retirement allowance); (5) modify, as a result of the incorporation of the guaranteed return of contributions feature, the optional payment arrangements available in the Teachers' and State Employees', Local Governmental Employees', and Legislative Retirement Systems, by changing the provisions for election of optional allowances at retirement by eliminating Option 1; and, in the Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System by (i) altering Option 4 through the removal of the interconnection with Option 1; and (ii) eliminating Option 5; (6) amend the laws in all retirement systems relative to the return of members' accumulated contributions in the form of lump-sum distributions which (i) comply with the withholding/rollover rules under Section 401(a)(31) of the United States Internal Revenue Code and (ii) repeal the provisions concerning diversion of members' accumulated contributions by an employer on account of the overpayment of salary or embezzlement of fees; (7) amend State laws governing the Supplemental Retirement Income Plan [I.R.C. Section 401(k) Plan] to allow rollovers to the Plan from other qualified plans, all to be consistent with the United States Internal Revenue Code, to become effective after action by the Plan's Board of Trustees; and, (8) amend the laws governing the Firemen's and Rescue Squad Workers' Pension Fund so as to allow the purchase of prior service credits by fund members at full actuarial cost.

The cost of these amendments in the four affected retirement systems and the Disability Income Plan was funded by the gains realized from favorable investment and actuarial experience of each and by appropriation of the General Assembly to each of these retirement systems, except the Local Governmental Employees' Retirement System. The cost associated with the service purchase amendment in the Firemen's and Rescue Squad Workers' Pension Fund will be funded by the affected members.

## COMMUNICATIONS

The Research and Planning Officer, in conjunction with other staff, designed and distributed two new service purchase forms and revised 16 others for purposes of: enrollment in various systems, direct deposit, selecting an option, service purchases, applying for refunds, and other related matters. Our brochure entitled "Things Retirees Need to Know" was also updated for distribution to provide topical information for new retirees.

Brochures describing the plan provisions of the Firemen's and Rescue Squad Workers' Pension Fund and the Separate Insurance Benefits for Law Enforcement Officers were revised and distributed to plan participants.

The manual for staff training purposes was completed during this past fiscal year as was an employer manual for distribution to employers participating in the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System. Distribution of the staff training manual was accomplished during this period.

Annual Statements of Account for members of the consolidated Judicial Retirement System were expanded to include projected estimates of benefits at retirement. Now all members of the four retirement systems administered by this Division, who have earned the right to a retirement benefit, are provided an annual estimate of future retirement benefits.

Subsequent to adjournment of the General Assembly, a digest of all legislative changes was provided to all employing units and employee associations. In addition, Divisional staff contributed various articles which were published in the publications of the State Employees' Association, the North Carolina Association of Educators, the Retired Governmental Employees' Association, and other organizations.

The staff of the Member Services Section again worked with the staff of the State Agency for Public Telecommunications in revising the video and audio-visual (sound/slide) programs utilized for several years by the State and Local retirement systems. These programs, which can be used by anyone to explain the basic benefits structure of those retirement systems, are especially suited to the informational requirements of members nearing retirement age. Videos and sound/slide programs are used in the Division's statewide preretirement counseling meetings which are publicized throughout the State by the press, radio, and television. In the spring of 1993, the Member Services staff conducted 38 of these meetings statewide with some 3,300 members in attendance. In addition to the Division's sponsored meetings, the staff also participated in 56 other meetings, seminars, benefits fairs, and conferences relating to retirement benefits, including PREPARE workshops.

The Division continued its joint venture with the Office of State Personnel and the community college system in the PREPARE workshop program. This program covers legal, health, financial, housing, and family aspects as they pertain to retirement.

## FUNCTIONAL

For the Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System, the Division's Benefits Section paid 16,626 refunds of contributions to members who had terminated covered employment and 6,667 new monthly retirement allowances.

The Division continued a highly successful compaign, begun February 1, 1991, to induce as many as possible of our retirees under the various retirement systems to convert to direct deposit of their benefit payment to their checking or savings accounts; and instituted a policy, beginning March 1, 1991, of automatically placing the benefit payments of all new retirees on direct deposit. Between July 1, 1992, and June 30, 1993, the benefit payments of 6,432 retirees were added to our direct deposit group thereby bringing the total number of monthly payments made by direct deposit to 72,354. The annualized savings to the State, relative only to the benefit payments placed on direct deposit during the twelve-month period referred to herein, is estimated to be approximately $18,000.

The Division also continued a program to contact vested deferred members who were eligible for retirement benefits as a result of legislation enacted into law by the 1987 Session of the General Assembly, which permitted the retirement systems to have access to the mailing addresses of members from other State departments and agencies. By obtaining access to the address computer records of the Department of Revenue, the Division is able to notify members of their eligibility for retirement benefits.

In the Local Governmental Employees' Retirement System, 14 local governments elected to become participating employers with the System. The participation of these employers involved the staff of the Member Services Section in meeting with their governing bodies and employees, acquiring prevaluations from the consulting actuary as to an employer's contribution rate, and providing all legal documents and agreements for their execution.

The Division utilizes several methods to determine the continued eligibility of recipients to be paid monthly benefits. By contracting with the Vital Records Branch of the State Department of Environment, Health and Natural Resources, and a national firm with a computer database containing the records of some 50 million deaths, the Division is able to verify that recipients of record are continuing to live. These services have also been used to verify the continued lives of surviving spouses who qualify for hospital/medical coverage at the State's expense. Annualized savings of approximately $240,000 were realized from our 1993 efforts in this area.

This past year, efforts were increased to identify individuals who are in receipt of retirement benefits but who have returned to employment with a participating employer on some basis, such as part-time or temporary, which precludes reenrollment in the Retirement System, thereby frustrating tracking efforts. Monitoring reemployment earnings with participating employers is incumbent upon the Division since the General Statutes set limits on such reemployment earnings. To facilitate an otherwise cumbersome duty, computer software was refined which greatly enhances the Division's capability of tracking such reemployment earnings and the early identification of reemployed retirees who have exceeded their earnings limitation. Early identification prevents large overpayments and potential loss of some State-paid hospital/medical premiums in addition to some retirement benefit payments.

This past year provided continued progress in the development and installation of computer software, which greatly enhanced processing capabilities, thus increasing both speed and accuracy. Specifically, new computer software was developed, and is being tested, which will calculate the Death Benefit payment and will computer print the notification of benefits payable to

the beneficiary. Additionally, development was begun on software to calculate the lump-sum payment due to the beneficiary of a deceased retiree. And, as a result of continuing automation, 16 new computer terminals and 8 printers were installed in the Benefits Processing Section, and processing personnel requirements were reduced by 2 positions.

The Division worked closely with the Information Systems Section of the Administrative Services Division in the development of an automated retirement program to be used in the processing of monthly retirement benefits. During this period, we implemented the initial application log-in phase of this program. In addition, we began the development of the other features of the automated program which will include the calculation of monthly retirement benefits, and ultimately the automated payment of monthly benefits.

In this same area, we began the development of the automated inquiry of data as produced from the initial log-in of the Application for Retirement. As the other phases of the automated program are developed and implemented, the inquiry database will be expanded. This feature of the program provides access of key information relative to the processing of individual retirement benefits by the staff in the Division and should greatly increase our efficiency in responding to inquiries.

During the 1992/1993 fiscal year, the Retirement Systems Division engaged consultants to perform an evaluation of the Division's present workflows and to identify potential improvements in both the present work processes and those that would be associated with the utilization of optical image processing technologies. This study enabled the Division to implement several changes in the work processes, thus increasing productivity. One major change was the renovation of the physical space in the Division. This renovation allowed us to consolidate work groups, and locate groups, whose work interconnects, in proximity to one another, thus reducing the amount of time spent in transit, and in routing documents between areas. It also increased the amount of cooperative processing, thereby leading to more accurate and timely performance.

Subsequent to this initial study, the Division management and consultants proceeded with a total reengineering of all major work processes. The reengineered work processes will eliminate all inefficiencies identified in the initial study, utilize optical imaging technologies, and automate many current manual processes. The ultimate goal of this initiative is to provide a higher level of service to our members by decreasing processing error rates, reducing document processing time, eliminating file contention, providing for disaster recovery, and enhancing document image quality.

During this past year the Division applied for and received a new determination letter from the Internal Revenue Service that the Supplemental Retirement Income Plan [I.R.C. Section 401(k) Plan] continues to be a qualified employee benefit plan under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986 and that its trust continues to be tax exempt under Section 501(a) of the Code.

By act of the General Assembly, responsibility for administration of the Firemen's and Rescue Squad Workers' Pension Fund was transferred, along with the staff of five employees, to this Department effective July 1, 1992. Membership and financial records were maintained on an outdated Mohawk computer system while benefit payments were processed by the State Information Processing Services (SIPS) Division of the Office of the State Controller. During the past fiscal year, all records and benefit payment functions were transferred to the mainframe computer of this Department for storage and processing.

The transfer averted the necessity of purchasing a new computer system, estimated to cost $100,000, for use by the Fund. It also eliminated an annual expenditure in excess of $8,000 for data processing services by SIPS and approximately $6,000 for an outside independent annual audit (which can now be performed by the North Carolina Department of State Auditor at considerably less cost).

Otherwise in the area of records retention and maintenance, several changes were implemented to save both time and money. For example, the Division hired a private contractor to develop our records film. Not only are we realizing a cost savings but we also benefit from faster processing time.

In addition to establishing approximately 37,500 new active member accounts, the Records Section processed 18,800 beneficiary changes and 8,419 other data changes to member records.

The Department continued a feasibility study of converting the Division's microfiche records system to a computer imaging records system. Preliminary indications are that the benefits of a computer imaging system would greatly improve accessibility, storage problems, response capabilities, and other activities.

## The Retirement Systems and Trust Funds

### ACTUARIAL VALUATION

The actuarial valuation is prepared by an actuary to assess the funding progress of a retirement system and the adequacy of the contribution rates which have been established to fund the system. An actuarial valuation is an inventory of the assets and liabilities of a retirement system at a specific point in time. Information collected covers all of the active (both in-service and terminated) members and all of the retired members and other beneficiaries who are receiving benefit payments. In this way, everyone who has been promised a benefit from the system is included in the actuarial calculations to determine the present value of the system's liabilities.

These liabilities are then compared to the system's assets, and calculations are made to determine whether the contribution rates will be adequate to fund the uncovered liabilities in the time period originally established. Annual valuations are made to permit gradual changes in the contribution level and/or funding period and keep the funding on a proper course. The annual valuation is also used by the actuary to compare actual separation, compensation, and investment experience with the actuarial assumptions used in the valuation of the liabilities of the system. The actuarial valuation balance sheets for each retirement system are included with the tables.

## ACTUARIAL ASSUMPTIONS

The economic assumptions used for the actuarial valuation of all retirement systems are an interest rate of 7.5% per year and average rates of salary increase of about 6.3% per year, varying at different ages. The assumed rates for mortality, withdrawals, disabilities, and service retirement are based on actual past experience. The asset valuation method is based on cost value.

## FUNDING OF THE SYSTEM

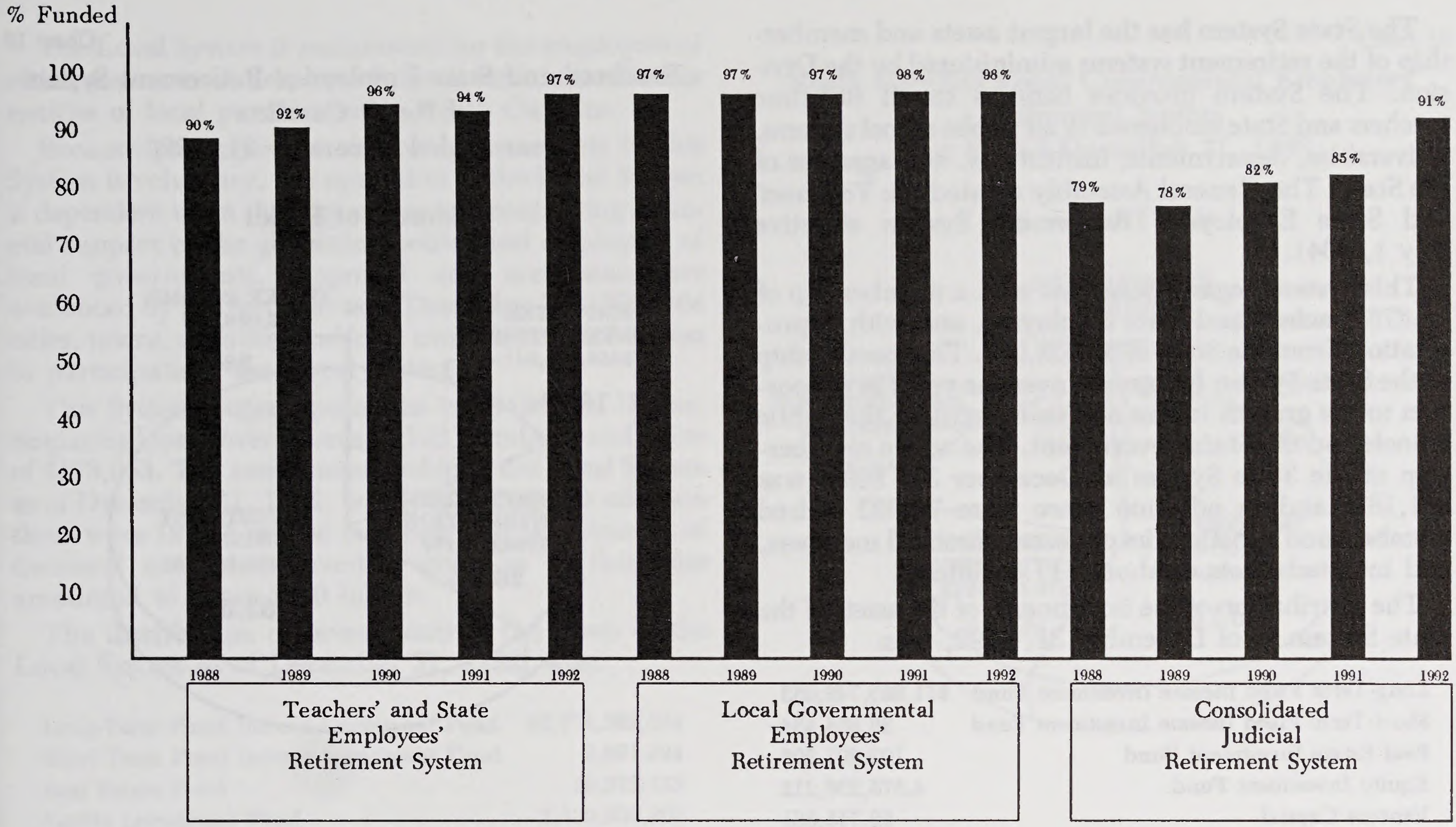
The retirement systems described in this report, except the Legislative Retirement System, are being funded on a full actuarial reserve basis and use the entry age normal cost method as the actuarial cost approach. Under the entry age normal cost method, the normal contribution percentage rate is calculated on the basis of the adopted actuarial assumptions as the level percentage of the compensation of the average new member which, if contributed throughout the entire period of active service, would be sufficient, together with his/her contributions, to support all the benefits payable on his/her account. The accrued liability is the difference between total liabilities and the present value of future normal cost contribution and the members' future contributions. All experience gains and losses are reflected in the amount of the unfunded accrued liability and thereby affect the period of liquidation, except the Local Governmental Employees' Retirement System where they are reflected in the normal contribution rate. The Legislative Retirement System is also being funded on a full actuarial reserve basis, but uses the projected unit credit cost method with unfunded accrued liability as the actuarial cost approach.

All retirement systems are joint contributory, defined benefit plans with contributions made by both employees and employers. Each active member contributes 6 percent (6%) of his/her compensation for creditable service by monthly payroll deduction. The only exception to this member contribution rate is the Legislative Retirement System to which each active member contributes 7 percent (7%) of his/her compensation. Employers make monthly contributions based on a percentage rate of the members' compensation for the month. Employer contribution rates are actuarially calculated.

## FUNDED STATUS OF THE RETIREMENT SYSTEMS

The consistent use of conservative actuarial assumptions and an approved actuarial cost method over the years since the establishment of the retirement systems, and the recognition of all promised benefits in the actuarial liabilities have resulted in retirement systems which can be labeled as "actuarially sound." A simple measure for determining the funded status of a system is to relate the total present assets to total accrued liabilities to determine a funded ratio. The total accrued liabilities are found by adding the assets and the unfunded accrued liabilities. For purposes of comparison, the funded ratios for the major retirement systems are graphically illustrated in Chart 17. When the ratio equals 100%, a system is considered to be "fully funded" on a current basis. At that time, the employer will make only the normal (current service) contributions.

## FUNDED RATIO OF THE RETIREMENT SYSTEMS



# TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA (State System)

## N.C.G.S. 135-1 THROUGH 135-18.5

The State System has the largest assets and membership of the retirement systems administered by the Division. The System provides benefits to all full-time teachers and State employees in all public school systems, universities, departments, institutions, and agencies of the State. The General Assembly created the Teachers' and State Employees' Retirement System effective July 1, 1941.

This System began operations with a membership of 42,878 teachers and State employees, and with appropriations from the State of $1,838,000. The membership of the State System has grown over the years in proportion to the growth in size and complexity of the public schools and the State government. The active membership of the State System at December 31, 1992, was 281,181; and in addition there were 74,623 retired members and beneficiaries of deceased retired members, and invested assets of about $17.0 billion.

The distribution of the investments of the assets of the State System as of December 31, 1992, was:

| | |
|---|---|
| Long-Term Fixed Income Investment Fund | $11,863,748,053 |
| Short-Term Fixed Income Investment Fund | 28,654,484 |
| Real Estate Investment Fund | 193,891,208 |
| Equity Investment Fund | 4,875,236,212 |
| Venture Capital | 22,715,681 |
| Total | $16,984,245,638 |

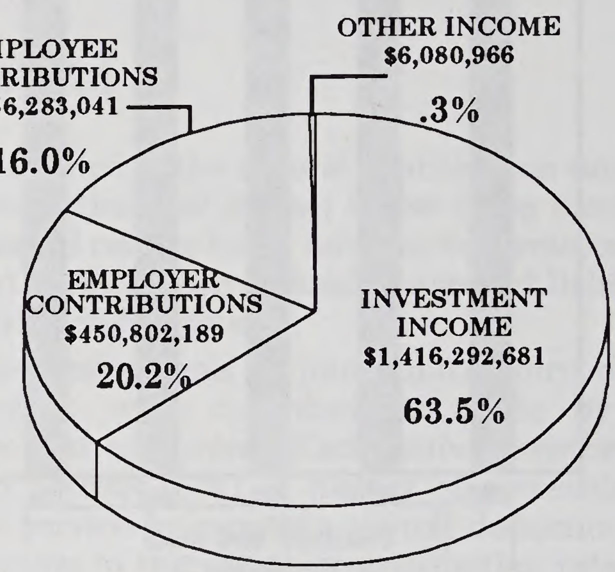
Operations of the State System during the calendar year 1992 resulted in total receipts of $2,229,458,877 and total expenditures of $745,809,178. Chart 18 graphically presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet for the State System, as of January 1, 1993, is shown in Table 11. Based on the latest actuary's reports, the General Assembly set the employer contribution rate at 8.38% of covered payroll effective July 1, 1993. On this basis, the total of employee and employer rates of contribution is adequate to fund all future benefits presently authorized, based on current service, and to fund, over a period of 9 years from January 1, 1993, the remaining accrued liability for past service.

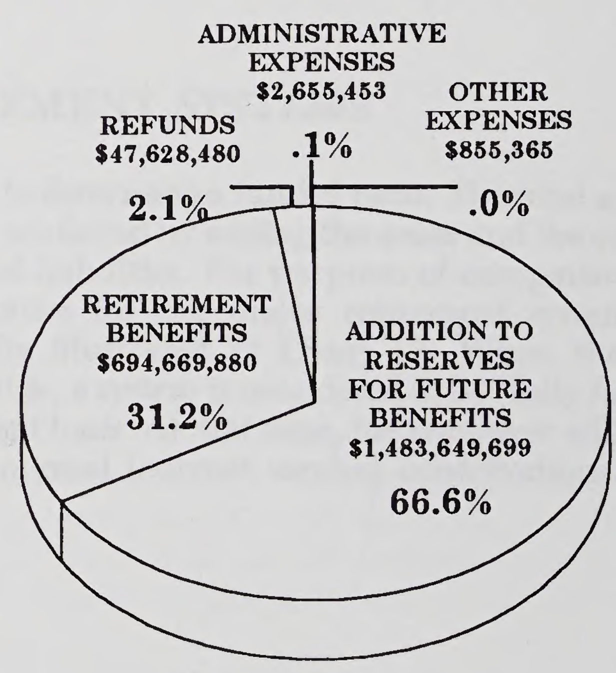
Chart 18

Teachers' and State Employees' Retirement System of North Carolina
Year Ended December 31, 1992

Sources of Funds




Applications of Funds



# NORTH CAROLINA LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM (Local System)

## N.C.G.S. 128-21 THROUGH 128-38

The Local System is maintained for the employees of cities, towns, counties, boards, commissions, and other entities of local government in North Carolina.

Because participation of local governments in this System is voluntary, the operation of the Local System is dependent upon the acceptance and continuing financial support of the governing bodies and employees of local governments. Approval and acceptance are evidenced by the fact that as of December 31, 1992, 764 cities, towns, counties, and local commissions had chosen to participate in the Local System.

This System began operations in 1945 with 18 participating local governments, 2,102 members, and assets of $178,053. The active membership of the Local System as of December 31, 1992, was 104,758; and in addition there were 19,075 retired members and beneficiaries of deceased members. Invested assets as of this date amounted to about $4.0 billion.

The distribution of investments of the assets of the Local System as of December 31, 1992, was:

| | |
|---|---|
| Long-Term Fixed Income Investment Fund | $2,774,568,694 |
| Short-Term Fixed Income Investment Fund | 9,891,824 |
| Real Estate Fund | 42,972,155 |
| Equity Investment Fund | 1,130,936,208 |
| Venture Capital | 5,255,245 |
| Total | $3,963,624,126 |

Operations of the Local System during the calendar year 1992 resulted in total receipts of $577,211,639 and total expenditures of $167,415,820. Chart 19 graphically presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet for the Local System, as of January 1, 1993, is shown in Table 12. The valuation utilizes a frozen accrued liability with gains and losses reflected in the normal rate of contribution.

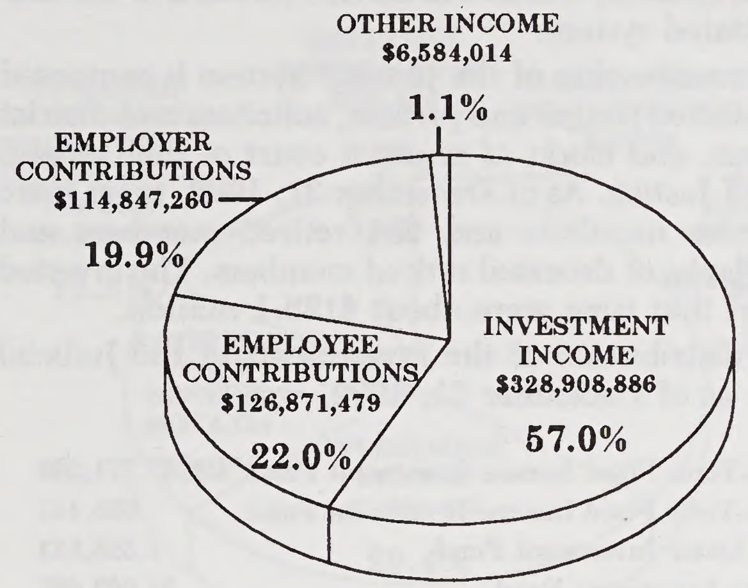
Based on the Actuary's report, the Board of Trustees set the employer normal contribution rate at 4.80% of covered payroll for general employees and at 5.27% of covered payroll for law enforcement officers, effective July 1, 1993. The accrued liability rate, if any, varies with each employing unit depending on the amount of prior service that was awarded to the members.

In accordance with the provisions of the legislation that caused the merger of the Law Enforcement Officers' Retirement System and the Local Governmental Employees' Retirement System on January 1, 1986, the normal contribution rates are separate for each of the two groups of employees while the accrued liability rate is the same.

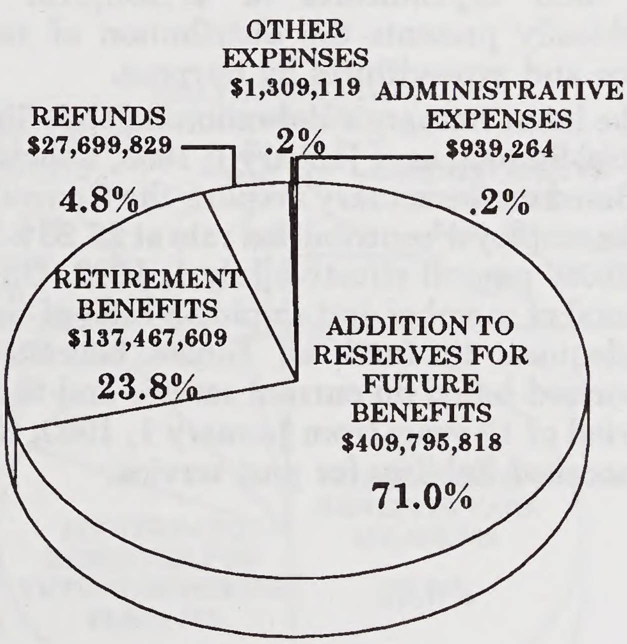
Chart 19

North Carolina Local Governmental Employees' Retirement System
Year Ended December 31, 1992

Sources of Funds




Applications of Funds



# CONSOLIDATED JUDICIAL RETIREMENT SYSTEM OF NORTH CAROLINA (Judicial System)

### N.C.G.S. 135-50 THROUGH 135-72

The Judicial System was created by the 1983 Session (Regular Session, 1984) of the General Assembly effective January 1, 1985. This System was formed by combining the previously existing Uniform Judicial, Uniform Solicitorial, and Uniform Clerks of Superior Court Retirement Systems. The Courts Commission was responsible for the design of the benefit structure of the previous systems, which was carried forward to the new consolidated system.

The membership of the Judicial System is composed of the elected judges and justices, solicitors and district attorneys, and clerks of superior court of the General Court of Justice. As of December 31, 1992, there were 425 active members and 284 retired members and beneficiaries of deceased retired members. The invested assets at that time were about $125.1 million.

The distribution of the investments of the Judicial System as of December 31, 1992, was:

| | |
|---|---|
| Long-Term Fixed Income Investment Fund | $ 87,371,398 |
| Short-Term Fixed Income Investment Fund | 536,420 |
| Real Estate Investment Fund | 1,328,813 |
| Equity Investment Fund | 35,663,667 |
| Venture Capital | 166,161 |
| Total | $125,066,459 |

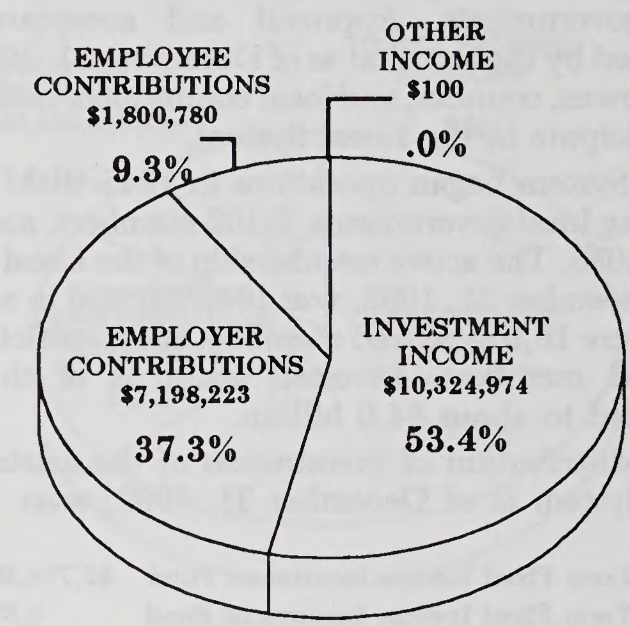
Operations of the Judicial System during the calendar year 1992 resulted in total receipts of $19,324,077 and total expenditures of $7,203,315. Chart 20 graphically presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet for the Judicial System, as of January 1, 1993, is shown in Table 13. Based on the actuary's report, the General Assembly set the employer contribution rate at 22.83% of covered members' payroll effective July 1, 1993. On this basis, the total of member and employer rates of contribution is adequate to fund all future benefits presently authorized based on current service and to fund, over a period of 12 years from January 1, 1993, the remaining accrued liability for past service.

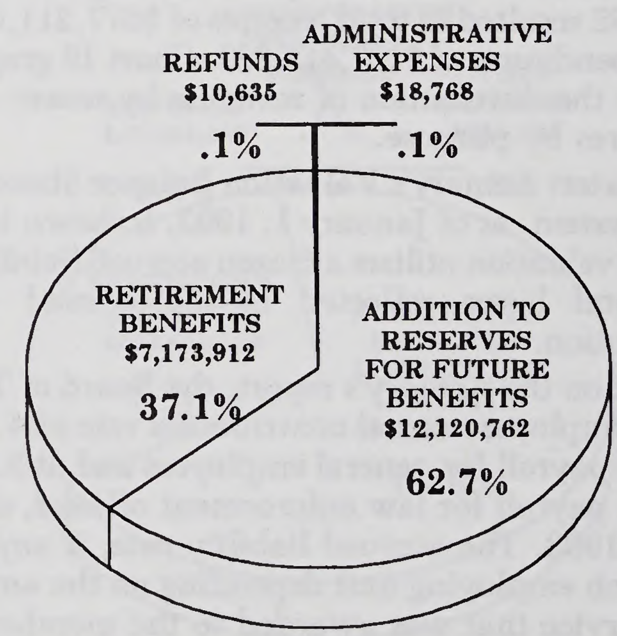
Chart 20

**Consolidated Judicial Retirement System of North Carolina**
**Year Ended December 31, 1992**

**Sources of Funds**




**Applications of Funds**



# TEACHERS' AND STATE EMPLOYEES' BENEFIT TRUST
## (Benefit Trust)
### N.C.G.S. 135-5(1); 128-27(1); 143-166.02; AND 143-166.60

The Benefit Trust was established January 1, 1980, after enabling legislation was enacted in the 1979 Session of the General Assembly, by the Board of Trustees of the Teachers' and State Employees' Retirement System. The Board of Trustees of the Local Governmental Employees' Retirement System elected to become a participating affiliate in the Trust at the same date. The purpose of the Benefit Trust is to provide group life insurance benefits for members of these two retirement systems. Formerly, identical type death benefits were provided directly by these retirement systems.

All contributions to fund the life insurance benefit are paid by the State and local governments, participating in one of the two retirement systems, to the Trust and held separate and apart from any pension or retirement funds. The funding method adopted for the Benefit Trust is one-year term cost. The employer contribution rate to fund this benefit for members of the Teachers' and State Employees' Retirement System is .16% of covered payroll. The employer contribution rate for members of the Local Governmental Employees' Retirement System is actuarially determined and varies among employers.

The Benefit Trust further includes the Separate Insurance Benefits Plan for State and Local Governmental Law Enforcement Officers. This Plan was transferred from the Law Enforcement Officers' Retirement System. The Plan provides additional life insurance benefits to active and retired law enforcement officers and additional accident and sickness insurance coverage for law enforcement officers. These benefits are funded by a $1.00 cost-of-court assessment in each criminal case conviction in the State.

Additionally, the Benefit Trust includes the Retiree Death Benefit Plan. This plan is funded by participant contributions. The benefit is $5,000 after 24 months of contributions. If a participant's death occurs before 24 months of contributions, the benefit is limited to a refund of contributions.

Chart 21 graphically presents the distribution of revenues by source and expenditures by purpose. The number of deaths and amounts of benefit payments, according to member group, during 1992 were:

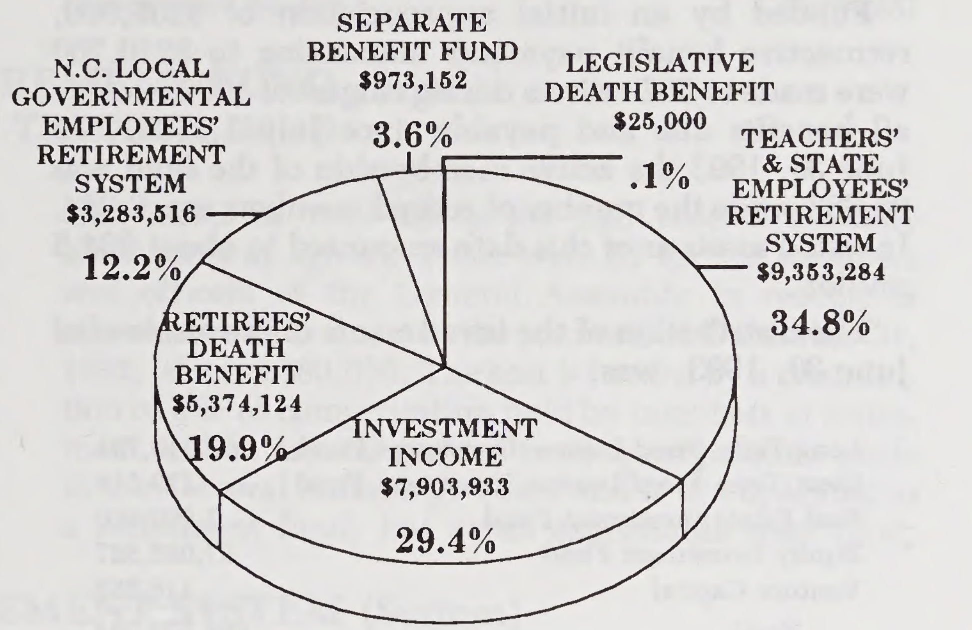
Life Insurance Payments
Calendar Year 1992

| Retirement System Membership | Number of Payments | Payments Amount |
|---|---|---|
| Teachers' and State Employees' | 457 | $13,338,202 |
| Local Governmental Employees' | 121 | 1,757,172 |

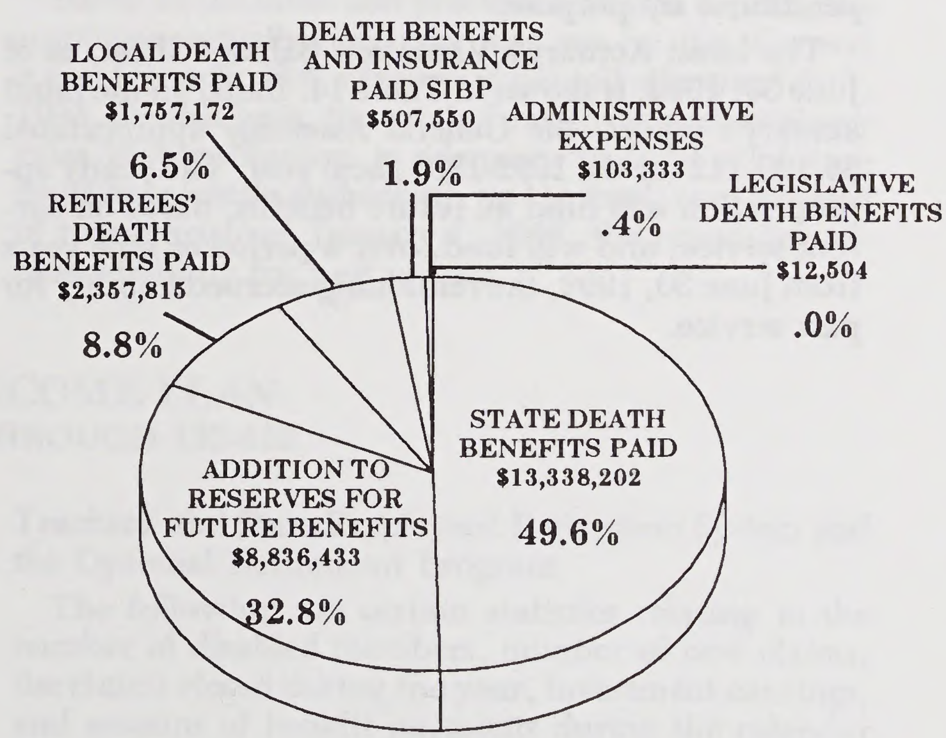
Chart 21

North Carolina Teachers' and State Employees' Benefit Trust
Year Ended December 31, 1992

Sources of Funds




Applications of Funds



# FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND
## (Pension Fund)
## N.C.G.S. 58-86-1 THROUGH 58-86-90

The Pension Fund was transferred to the Department of State Treasurer, effective July 1, 1992, by the 1992 Session of the General Assembly. Created by the 1959 Session of the General Assembly to provide benefits for certified firemen, the statutes were amended to include certified rescue squad workers beginning January 1, 1982. Both volunteer and paid personnel are included in the membership.

Funded by an initial appropriation of $235,000, retroactive benefit payments amounting to $210,700 were made to 362 retirees during August of 1962 to cover all benefits due and payable since July 1, 1961. At June 30, 1993 the active membership of the fund was 26,663 while the number of retired members was 6,084. Invested assets as of this date amounted to about $94.5 million.

The distribution of the investments of the assets as of June 30, 1993, was:

| | |
|---|---|
| Long-Term Fixed Income Investment Fund | $66,119,791 |
| Short-Term Fixed Income Investment Fund | 129,514 |
| Real Estate Investment Fund | 1,090,960 |
| Equity Investment Fund | 27,082,527 |
| Venture Capital | 116,252 |
| Total | $94,539,044 |

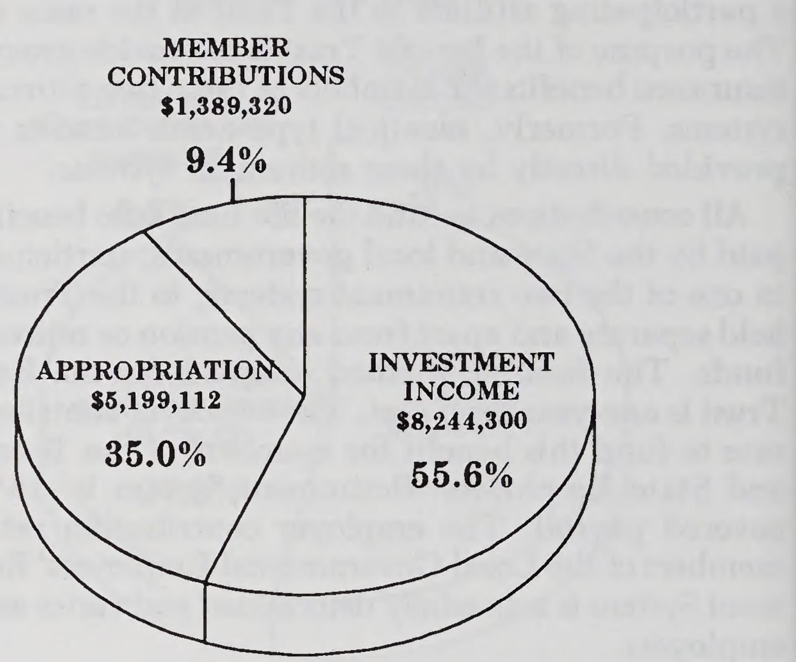
Operations of the Pension Fund during the 1993 fiscal year resulted in total receipts of $14,832,732 and total expenditures of $7,555,861. Chart 22 graphically represents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet, as of June 30, 1992, is shown in Table 14. Based on the latest actuary's report, the General Assembly appropriated $5,199,112 for the 1992-1993 fiscal year. The yearly appropriation will fund all future benefits, based on current service, and will fund, over a period of nine years from June 30, 1992, the remaining accrued liability for past service.

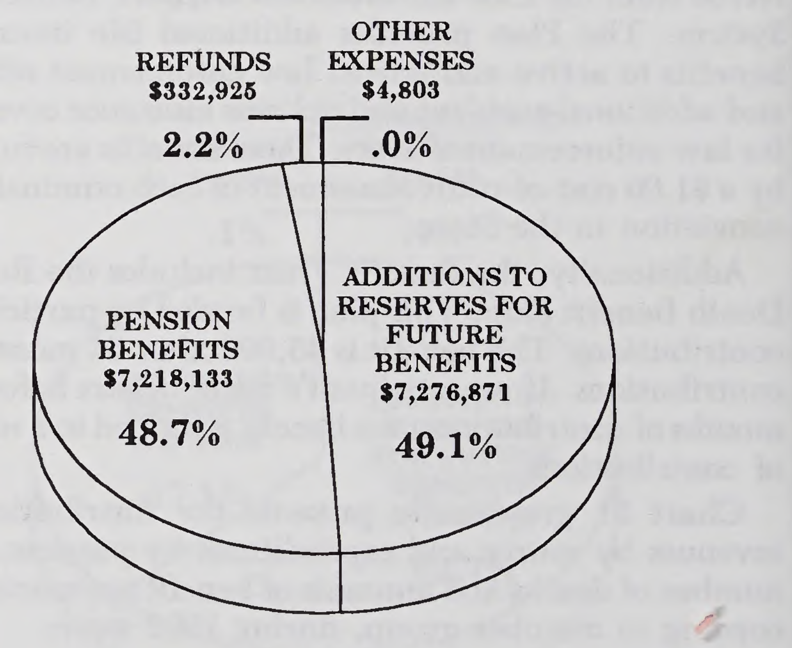
Chart 22

**Firemen's and Rescue Squad Workers' Pension Fund**
**Year Ended June 30, 1993**

**Sources of Funds**




**Applications of Funds**



## RETIREES' HEALTH PREMIUMS FUND

This fund is used as a conduit of moneys flowing from employers to pay individual coverage cost of retirees' health insurance. This coverage can be under either the State's health plan or approved health maintenance organizations. Retirees from the Teachers' and State Employees', Consolidated Judicial, and Legislative Retirement Systems are eligible for coverage. The method of collecting the employers' payments is a surcharge of 2.00% of covered members' payroll payable with the employer contribution rate to the affected retirement systems.

During 1992 this fund was segregated from the Teachers' and State Employees' Benefit Trust.

**Financial Information for 1992**

| | | |
|---|---|---|
| Beginning Fund Balance: | | $ 39,934,648 |
| Additions: Employer Contributions | $114,912,719 | |
| Investment Income | 3,458,846 | 118,371,565 |
| Deductions: Health Premiums Paid | $102,534,627 | |
| Administrative Expense | 86,735 | 102,621,362 |
| Ending Fund Balance | | $ 55,684,851 |

## LEGISLATIVE RETIREMENT FUND (Fund)
### N.C.G.S. 120-4.1 THROUGH 120-4.2

The Fund was created by the 1969 Session of the General Assembly as a retirement plan for members and elected officers of the North Carolina General Assembly. The Fund was abolished, prospectively, by the 1973 Session (Second Session 1974). The abolishing Act preserved the vested and inchoate rights of the members in the Fund so that all members and former members of the General Assembly who had qualified by virtue of service as of 1974 are still in receipt of monthly allowances or may apply for and receive monthly allowances at age 65. There were 51 former members and officers of the General Assembly in receipt of allowances with a cost in the year ended December 31, 1992, of some $80,065. The cost is funded by a contribution of 5% of compensation paid by members at retirement and an annual general fund appropriation made to the General Assembly. The Fund is not operated as a retirement fund, but as an expendable trust fund.

## LEGISLATIVE RETIREMENT SYSTEM (System)
### N.C.G.S. 120-4.8 THROUGH 120-4.29

The Legislative Retirement System was created by the 1983 Session of the General Assembly as a retirement plan for members of the General Assembly. The membership also included members who were vested or had maintained member contributions in the Legislative Retirement Fund, and those retirees receiving a benefit from the Legislative Fund and who elect to transfer to the Legislative Retirement System.

As of December 31, 1992, the System had 166 active members, 62 inactive members, and 110 retired members. Assets on that date totalled $8,476,040. Operations of the System during calendar year 1992 resulted in total receipts of $1,480,202 and disbursements of $341,408 with $1,138,794 added to the reserve for future benefits.

Based on the latest and previous actuarial reports, the employer contribution rate was set by the General Assembly at 30.30% of covered payroll effective July 1, 1993. On this basis, the total of employee and employer rates of contribution is adequate to fund all future benefits presently authorized, and to fund, over a period of two years from January 1, 1992, the remaining accrued liability for past service.

## DISABILITY INCOME PLAN
### N.C.G.S. 135-100 THROUGH 135-113

The Disability Income Plan of North Carolina was created in 1987 by the North Carolina General Assembly with an effective date of January 1, 1988. This plan replaced the former provisions for disability retirement under the Teachers' and State Employees' Retirement System and replaced the benefits provided under the former Disability Salary Continuation Plan.

The purpose of this plan is to provide equitable replacement income for eligible State teachers and State employees who become temporarily or permanently disabled for the performance of their duty prior to retirement. The employer contribution rate to fund this benefit is .42% of the covered payroll of members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program.

The following are certain statistics relating to the number of disabled members, number of new claims, the claims closed during the year, investment earnings, and amount of benefit payments during the calendar years ended 1991 and 1992:

| | 1991 | 1992 |
|---|---|---|
| Number of Disabled Members | 2,407 | 2,905 |
| New Claims During the Year | 657 | 797 |
| Employer Contributions | $24,353,974 | $26,386,671 |
| Investment Income | 7,354,574 | 8,486,381 |
| Amount of Benefit Payments | 13,271,890 | 16,708,657 |

## PUBLIC EMPLOYEES' SOCIAL SECURITY AGENCY
### (Social Security Agency)
### N.C.G.S. 135-19 THROUGH 135-26

The Social Security Agency administers the State's responsibility under the Social Security Agreement between the State of North Carolina and the United States Secretary of Health and Human Services. This Agreement was entered into on July 16, 1951. This Agreement was executed pursuant to authority in Section 218 of the Federal Social Security Act and Article 2, Chapter 135, of the General Statutes of North Carolina.

The provisions of the Agreement require the Social Security Agency to provide the mechanics of coverage for the State and its qualified political subdivisions and to act as liaison between the State and the Social Security Administration.

## NATIONAL GUARD PENSION PLAN (Guard Plan)
### N.C.G.S. 127A-40

The Guard Plan was transferred to the Department of State Treasurer for payment of monthly benefits by the 1979 Session of the General Assembly, effective July 1, 1979. This Division pays allowances based on the certification of eligibility of former national guardsmen by the Secretary of the Department of Crime Control and Public Safety. The payments of benefits are funded by State general fund appropriations by the General Assembly. As of December 31, 1992, there were 1,222 beneficiaries in receipt of monthly allowances from the Guard Plan at a cost that calendar year of $1,189,589.

The 1983 Session of the General Assembly enacted legislation, effective July 1, 1983, creating a trust fund for financing National Guard Plan payments and requiring the State Treasurer to maintain the Plan on a generally accepted actuarial basis. Based on an actuarial study after passage of this legislation, the June 1984 Session appropriated $1,717,977 to begin actuarial reserve funding. The funding appropriated for 1992-93 was $2,123,496.

## SUPPLEMENTAL RETIREMENT INCOME PLAN OF NORTH CAROLINA [401(k) Plan]
### N.C.G.S. 135-90 THROUGH 135-95; 143-166.30; AND 143-166.50

The 1983 Session (Regular Session, 1984) enacted enabling-type legislation creating the State's Internal Revenue Code Section 401(k) Plan effective as of January 1, 1985. The Plan is a voluntary tax-deferred savings/investment program designed to supplement members' replacement income in retirement. The Plan is governed jointly by the State Treasurer and a Board of Trustees composed of members of the Boards of Trustees of the Teachers' and State Employees' and Local Governmental Employees' Retirement Systems.

Branch Banking and Trust Company (BB&T), the Plan's third-party administrator, is responsible under the Plan document adopted by the Board and the terms of the contract with the Board for all aspects of operating the Plan. This responsibility includes communications, recordkeeping, and investment products.

The Plan's number of participating members rose from 65,905 as of July 1, 1992, to 74,453 members as of June 30, 1993, for an increase of about 13%. Contributions by employers during this fiscal year totaled over $40,191,455 while salary deferred contributions by members were over $46,961,092. The total assets at book value of the Plan increased by 25% to $522,024,673.

Under the current contract, members may select from a bank investment contract, a money market account, and four mutual funds. As of June 30, 1993, 36.1% of the assets were invested in the bank investment contract, 41.9% were invested in the mutual funds, and 14.3% were invested in the money market account. In addition, 7.4% of the assets were loans receivable and .30% of the assets were cash on deposit. Significantly, 80% of the participants pay smaller investment fees under the current contract than the previous one. In addition, through negotiations with the third-party administrator, the asset management fee of 0.5% of assets at market value per year will be limited in the future to participant account values of $50,000 and less. The savings to Plan participants should amount to about $145,000 per year.

A portion of court cost receipts are deposited into the account of each State and local government law enforcement officer. As of June 30, 1993, court cost receipts of $1,641,549 were transferred and credited to the State and local law enforcement officers' accounts.

## REGISTERS OF DEEDS' SUPPLEMENTAL PENSION FUND

### N.C.G.S. 161-50 THROUGH 161-50.5

The Registers of Deeds' Supplemental Pension Fund was created by the 1987 Session of the General Assembly for the purpose of providing a supplement to Local Governmental Employees' Retirement System benefits for Registers of Deeds. The stated purpose of the Act was to attract the most highly qualified talent available within the State to that county office. The Supplemental Pension Fund is administered by the Department of State Treasurer.

Each county board of commissioners began October 1987 remitting monthly to the Department of State Treasurer an amount equal to 4.5% of the monthly receipts collected pursuant to Article 1 of Chapter 161 of the General Statutes for deposit to the credit of the Register of Deeds' Supplemental Pension Fund. As of December 31, 1992, the Fund had total assets in the amount of $2,966,310.

Benefits from the Fund became payable beginning July 1, 1988. For the year ending December 31, 1992, the Fund paid total benefits in the amount of $393,222 to 46 retired Registers of Deeds.

## CONTRIBUTORY DEATH BENEFIT FOR RETIRED MEMBERS

### N.C.G.S. 120-4.27, 128-27 (12), 135-5(1), AND 135-64(g)

The Contributory Death Benefit for Retired Members was created by the 1987 Session of the General Assembly as a fully contributory death benefit plan for retired members of the Teachers' and State Employees' Retirement System, the Legislative Retirement System, the Consolidated Judicial Retirement System, and the Local Governmental Employees' Retirement System, effective July 1, 1988. The Contributory Death Benefit is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System. The contributions of retired members electing coverage are placed in the Contributory Death Benefit Trust.

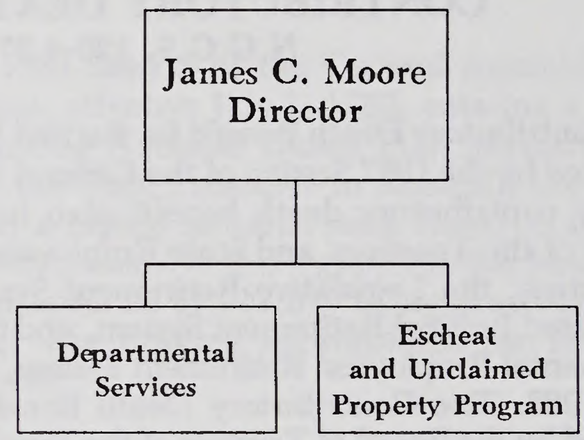
Selected Statistics
For the Calendar Year

| | 1992 |
|---|---|
| Enrollment | 2,199 |
| Contributions | $5,374,124 |
| Investment Income | 1,656,894 |
| Payouts (Death/Cancellations) | 2,357,815 |

# Administrative Services Division

## Organization

The Administrative Services Division is organized to provide support services to the State Treasurer and the program divisions within the Department. The support services provided include department accounting, personnel management, word processing, information systems, and mail and supply room functions. In addition, the Administrative Services Division, is also responsible for the administration of the State's Escheat and Unclaimed Property Program.




## Operational Highlights

- $7,723,923 in net investment income from the Escheat and Unclaimed Property Fund was earned and submitted to the State Education Assistance Authority to provide loans to North Carolina students in State-supported schools of higher education.
- A record $17,510,582 in escheated and unclaimed property was received from 3,341 reports submitted.
- $2,662,977 was refunded to 5,039 owners of escheated and unclaimed property.
- Unclaimed stocks and mutual funds shares valued at approximately $1.5 million were received.

## Departmental Services

Departmental Services provides general support to the Department in areas of departmental accounting, information systems, personnel management, word processing, and mail and supply room/purchasing functions.

### DEPARTMENTAL ACCOUNTING

The basic accounting functions of the Department are provided by a central accounting section headed by a Controller as section chief and Chief Fiscal Officer of the Department. Departmental Accounting includes the investment accounting function, all general ledger functions, the escheat accounting function, the budgetary accounting function, and technical services.

**Investment Accounting** — The accounting for the investment funds discussed under the Investment and Banking Division are very similar to the accounting for mutual funds. The Section maintains general and subsidiary ledgers for each investment fund utilizing the Investment Accounting System, an integrated software program. Enhancements to the system (to aid the Portfolio Managers) are being planned to be completed in 1994.

**Retirement Accounting** — The Section maintains the general ledgers for each pension fund and employee trust fund discussed under the Retirement Systems Division.

**Other Accounting Functions** — The Section maintains the general ledgers for the departmental and debt service budgets, the Escheat Fund, and all other trust funds.

**Budgeting Operations** — Preparation and implementation of the annual budget authorizations is the responsibility of the Section. Activity during the year included not only normal continuing operations, but also the preparation of the 1993-99 Departmental Plan and the preparation of the Department's 1992-93 continuation and expansion budget. During the 1991-92 fiscal year, the Department spent $13,788,228 of an authorized operating budget of $15,392,380. (See Exhibit C.)

Technical Services — Technical services are provided on a request basis and include the coordination of the Administration Procedures Act for the Department. Among the more notable projects were: serving as a facilitator for the Retirement Records Automation Project, serving on behalf of the Department on the Task Force on Solid Waste of the Governmental Accounting Standards Board (GASB), and preparing comments on exposure drafts for the GASB (5) and the American Institute of Certified Public Accountants (1).

## PERSONNEL MANAGEMENT

As of June 30, 1993, the Department of State Treasurer had 249.5 positions which were assigned as follows:

### Personnel Recapitulation

| | |
|---|---|
| Office of the Treasurer | 5 |
| Administrative Services Division | 68 |
| Investment and Banking Division | 34.5 |
| State and Local Government Finance Division | 27 |
| Retirement Systems Division | 111 |
| Advisory Council on Education* | 4 |
| | 249.5 |

*The Department of State Treasurer serves as fiscal agent for the Advisory Council.

During the past year, 28 employees were promoted to higher level positions and 29 new employees were hired. In addition, there were 39 employees who separated from employment in the Department.

## WORD PROCESSING

Since 1977, the Word Processing Center has provided:

- Support in the preparation of statistical reports, procedures, manuals, graphs, scanned images, and written communications.
- Technical assistance in the design of new forms, revised forms, and graphics.
- Coordination of printing requests for all Divisions.
- Preparation of final copy for printing of official statements, bond and note circulars, brochures, manuals, and forms.

The Word Processing Center showed an increase in the word processing area and a slight decline in the desktop publishing activities which produce official statements, manuals, brochures, forms, and graphics.

## INFORMATION SYSTEMS

During the past fiscal year, the Information Systems Section has achieved the following:

Mainframe system software and memory was upgraded so that reduced processing times were realized, and the mainframe system now has the capability to interact with automated processes in a network environment. This new capability has also allowed us to electronically transport large volumes of data to and from the State Information Processing Services Computer Center.

With the establishment of new procedures, we have been able to greatly reduce the need for the handling of magnetic tapes in the monthly processing of check reconciliation data from the Department's Investment and Banking Division to the more than 100 State and local units that we service for this application.

Operations During the Year — The Department entered into a reciprocal agreement with the State Employees' Credit Union that allows either party to process incoming checks on the other party's check processing equipment in the event that one of the machines is inoperable for an unacceptable length of time. Both installations have similar equipment and similar software. Procedures to test the functionality at each location occur on a regularly scheduled basis.

Another major task completed this year was the migration of the Firemen's and Rescue Squad Workers' Pension Fund system from the State Auditor's Office to our Department. The systems operated in a different environment on antiquated equipment, and a major development effort was required to incorporate the system into our automated environment.

One other major accomplishment was the development and installation of the on-line deposit and reporting system for the Department's Investment and Banking Division. This was a joint effort by the Department and the Office of the State Controller, enabling us to interface with their cash management and control system which resides and operates at the State Information Processing Services Computer Center. The upgrade to the Departmental mainframe software and memory has allowed us to transfer data from their system to ours.

The Information Systems Section is currently in the process of assisting the Retirement Systems Division in the procurement and installation of an electronic document management system that will eventually replace the existing microfiche-based system.

## Escheat and Unclaimed Property Program

The Escheat Program commenced when the North Carolina General Assembly adopted the University Act of 1789. The administration of the program was handled by the University of North Carolina, and its purpose in the early years was simple—to recover unclaimed property and utilize it for the benefit of the University System. From legislation enacted in 1970, the North Carolina Department of State Treasurer assumed responsiblity for the administration of this program in 1971. The purpose and scope of the program was broadened, and it is now charged with the responsibilities of:

- Recovering unclaimed or forgotten properties belonging to North Carolina citizens.
- Reuniting these properties with the rightful owner.
- Remitting the interest earnings on the funds invested to the North Carolina State Education Assistance Authority to provide loans to worthy and needy North Carolina students in State-supported schools of higher education.

The program provides a most unusual service to the State and continues to be one of the most progressive trust accounts administered by the Department of State Treasurer.

What is an Escheat? — Simply put, an escheat is the succession of abandoned property to the State. It is commonly associated with property that comes from the estate of a person dying without a will and without any known heirs. However, this concept has been broadened to include the recovery of any property that results from the failure of a person legally entitled to that property to make a valid claim against the holder of the property within a prescribed period of time. Consequently, the terms escheat and unclaimed property are used interchangeably.

Holders of escheat and unclaimed property may include companies, retailers, corporations, partnerships, sole proprietorships, State agencies, financial institutions, universities, hospitals, local governments, public utilities, Clerks of Superior Court, and insurance companies. The types of property which are often unclaimed run the gauntlet from unclaimed checking and savings accounts to uncashed checks. Altogether there are 90 different types of property which may become unclaimed or escheatable.

Recovery of Unclaimed Property — During the 1992-93 fiscal year, $17,510,582 was deposited into the Escheat Account. Of this amount, $17,440,524 came from unclaimed property actually recovered, while $70,058 came from interest penalties applied to holders who failed to file reports in a timely manner. As reflected on Chart 23, funds deposited into the Escheat Account have increased substantially over the past several years. This trend occurs in other state programs nationwide. We feel these increases have resulted from a greater holder awareness of the escheat and unclaimed property laws, and the requirements to report unclaimed property accordingly. Much of this awareness continues to be generated by four regional holder seminars conducted across the nation and sponsored by the National Association of Unclaimed Property Administrators, of which North Carolina is a member.

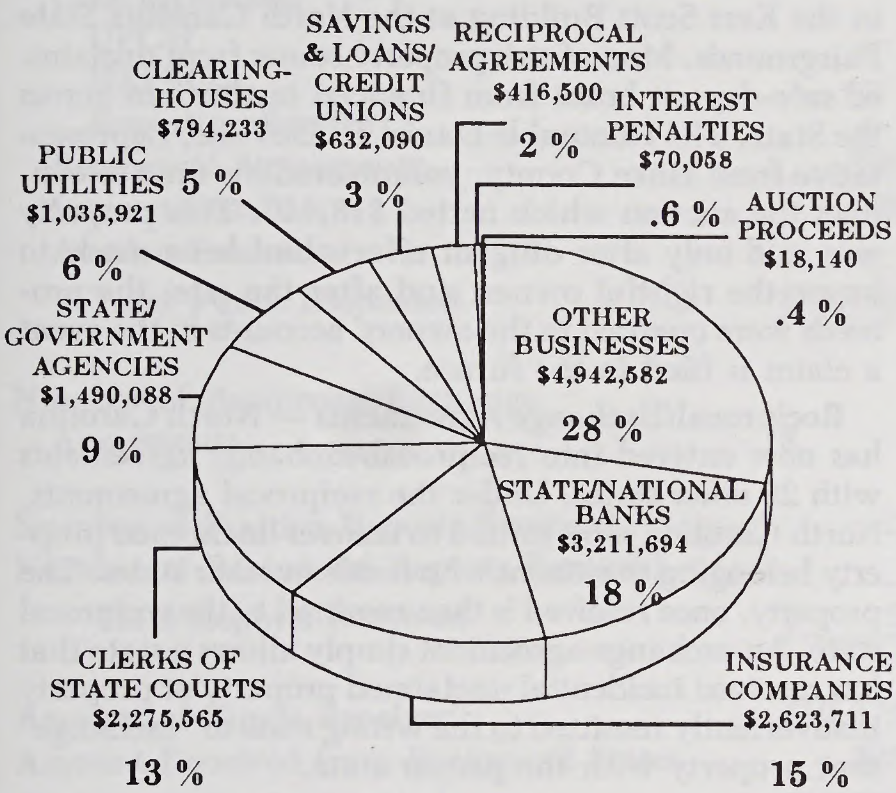
Another reason for the increase in funds recovered is a result of the program's aggressive endeavor to build the holder base. Staff members from the compliance audit unit are constantly seeking methods to add holders to the computer database to ensure that the holder receives the necessary forms for reporting and remitting unclaimed property. In addition, the compliance audit unit monitors the historical filing of reports to insure that all categories of unclaimed property are properly remitted.

Companies located outside of North Carolina often come under the purview of vendors who perform audits on a contractual basis. This past fiscal year, over $794,233 was submitted by these vendors as a result of audits on out-of-state companies.

Although not reflected as part of the cash receipts, over $1.5 million in unclaimed securities (stocks, bonds, mutual funds) was received either in physical or book entry form. This property will be held for at least one year while attempts to locate the owner(s) are completed. If the owner cannot be located, the security will be sold, and the money will be credited to the owner's account.

Chart 23

**UNCLAIMED FUNDS COLLECTED**
**Year Ending June 30, 1993**




**Refund of Unclaimed Property** — The 1992-93 fiscal year saw a substantial increase in the number of claims and the amount of money refunded to the rightful owners. The property refunded this past fiscal year amounted to $2,662,977 in cash refunds and $303,040 in securities. A total of 5,039 claimants were paid refunds this year, an increase of 50% over last year.

The efforts to return property to the rightful owner are many and varied. The North Carolina General Statutes provide that a list of names and addresses of rightful owners be sent to each Clerk of Superior Court. To make the public aware of these lists, legal advertisements are placed in two newspapers of general circulation for two consecutive weeks. As an additional measure, the program also submits a duplicate list to one newspaper in each county along with a news release and a request that the list be reprinted. Generally, 70 to 75% of the newspapers will reprint the list as a public service. It is this service that generates most of the refund requests from the owners.

Another effective tool utilized to refund property to the rightful owner has been the process of matching social security numbers against the database from the tax files of the North Carolina Department of Revenue. They, then, provide this office with current address information on the prospective claimant. If this endeavor does not prove to be successful, a similar match is made via social security number with a credit bureau that will also provide last known address information.

Another service the program began to use at the end of the fiscal year was the utilization of compact disks which contain address and telephone number information on millions of citizens across the country. The system cost less than $200 to purchase and has already been utilized to locate one heir who is entitled to receive over $105,000.

**Remittance to the SEAA** — The North Carolina State Education Assistance Authority (SEAA) is an agency of the State of North Carolina and is authorized by the General Assembly to administer post-secondary education programs of student financial assistance created under Federal or State law. North Carolina General Statute 116B-37 provides that the interest earnings from the Escheat Fund, minus administrative expenses, be deposited with the SEAA. (See Chart 24 on next page.) The law further provides that this money will be utilized to provide low interest loans to worthy and needy North Carolina students in State-supported schools of higher education. Last year, $7,723,923 was deposited with the SEAA for this purpose. Interest earnings from last year provided low-interest loans to 2,350 North Carolina students in all State-supported schools of higher education.

Since the North Carolina Department of State Treasurer assumed responsibility for the administration of the Escheat and Unclaimed Property Program, $50,609,353 has been made available to the SEAA for loans in the past 21 years. Escheat loan applicants must provide financial need for the loan and the loans are made without regard to race, sex, or national origin.

## RECENT DEVELOPMENTS

**State Legislation** — This past fiscal year saw several legislative changes made to the Escheat Fund, most important of which was the reduction of the period of time before proceeds held by life insurance companies would be remitted to the Escheat Fund. Heretofore, North Carolina was the only State in the nation to have a ten-year custodial period before these funds were escheated. The legislation reduced this period to five years, which now brings us into conformity with other states and allows for a more favorable possibility of locating

the rightful owner because the "trail has not grown so cold." Additional notable State legislation included extending the custodial period for all certificate deposits held by customers of financial institutions from five years to ten years after the initial date of maturity.

**Federal Legislation** — North Carolina was active in supporting the "Unclaimed Deposits Amendments Act of 1993" which was enacted by Congress on June 25, 1993. This Act addressed issues concerning unclaimed funds from failed banking institutions released to the Federal Deposit Insurance Corporation (FDIC), the Resolution Trust Corporation (RTC) and the Federal Savings and Loan Insurance Corporation (FSLIC). Under this Bill, if the customer from a failed institution did not recover their money within 18 months, the money would be released to the State for efforts to be made to locate the rightful owners. The State would have ten years to attempt to make contact before the money had to be returned to the Federal Government.

Another bill introduced in Congress, at the urging of North Carolina as well as 46 other states and the District of Columbia, was the Equitable Escheatment Act of 1993. The purpose of this bill is to provide the equitable distribution of unclaimed interest and dividends to all states in situations where the owners are unknown. The legislation resulted from the Supreme Court decision in Delaware v. New York which provided that the state entitled to owner-unknown unclaimed distributions is the state of incorporation of the financial intermediary (broker) holding the property. Because the Supreme Court felt constrained by a 1965 precedent, it invited the states to seek enactment of Federal legislation to overturn its decision. Favorable outcome of this legislation could mean a potential windfall to North Carolina of over $2 million.

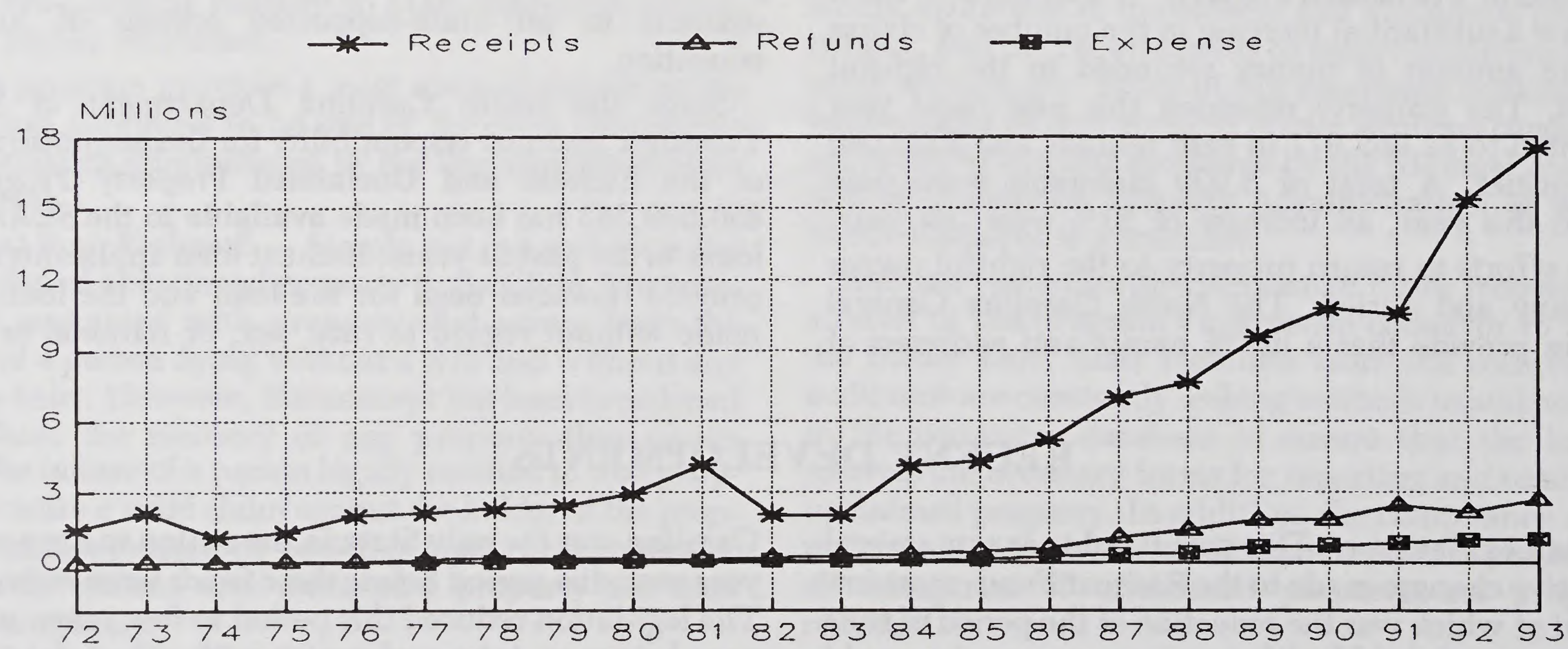
**New Securities Custodian** — During the year the Escheat and Unclaimed Property Program issued a Request for Proposal (RFP) for a Securities Custodian to maintain and tract unclaimed securities (stocks, bonds and mutual funds). State Street Bank and Trust from Boston, Massachusetts, won the bid and is charged with performing functions including maintaining data on individual owner accounts, tracking securities activity (dividents, splits, fractional shares, etc.) and crediting same to the proper account, and providing a means to process owners' refunds and sales in a more timely manner. This agreement should facilitate improved control over the $2 million in securities the Escheat Fund receives each year and ensure that all accounts (owner and Escheat Fund) are properly balanced. This agreement will also facilitate the reporting of unclaimed securities by the holders.

**Tangible Property Auction** — On July 18, the ninth annual auction of unclaimed tangible property was held in the Kerr Scott Building at the North Carolina State Fairgrounds. Most of this property comes from unclaimed safe-deposit boxes from financial institutions across the State. The Honorable Daniel H. DeVane, Representative from Hoke County, volunteered his time to conduct the auction which netted $18,140. This property was sold only after diligent efforts had been made to locate the rightful owner; and after the sale, the proceeds were credited to the owners' accounts in the event a claim is filed in the future.

**Reciprocal/Exchange Agreements** — North Carolina has now entered into reciprocal/exchange agreements with 29 other states. Under the reciprocal agreements, North Carolina is permitted to recover unclaimed property belonging to citizens who reside in other states. The property, once received is then remitted to the reciprocal state. An exchange agreement simply allows a state that has received incidential unclaimed property or property inadvertently remitted to the wrong state to "exchange" that property with the proper state.

Chart 24

## COMPARISON OF RECEIPTS, REFUNDS AND ADMINISTRATIVE EXPENSE




*** Percentage of administrative cost to receipts & refunds.**

**1.38 1.51 1.47 1.89 1.94 4.35 4.66 2.78 3.18 4.30 4.47 4.88 5.97* 5.86 6.49 5.50 5.01**

*It is not possible to include the undeterminable amounts of money refunded to the rightful owner by the holder, either as a result of audit or simply through voluntary compliance, as a result of the Escheat Law. If this data could be factored into the equasion, the percentage of administrative expense would be reduced even further.

## ESCHEAT FUND FACT SHEET

| | FY7/1/1989 6/30/90 | FY7/1/1990 6/30/91 | FY7/1/1991 6/30/92 | FY7/1/1992 6/30/93 |
|---|---|---|---|---|
| Funds Escheated: | | | | |
| Clerks of State Courts | $ 1,130,773 | $ 1,019,705 | $ 1,628,812 | $ 2,275,565 |
| State and National Banks | 1,841,564 | 1,538,499 | 3,065,568 | 3,211,694 |
| Savings & Loan Associations and Credit Unions | 470,833 | 528,737 | 637,384 | 632,090 |
| Insurance Companies | 1,549,446 | 1,667,085 | 1,902,823 | 2,623,711 |
| Public Utilities and Membership Co-ops | 976,343 | 877,870 | 1,075,157 | 1,035,921 |
| State and Governmental Agencies | 1,460,511 | 1,063,777 | 1,338,537 | 1,490,088 |
| Other Businesses | 2,909,422 | 2,933,335 | 4,078,429 | 4,942,582 |
| Clearinghouses: | | | | |
| UPCH | — | 127,868 | 588,247 | 678,179 |
| NAPPCO | — | 36,410 | 105,086 | 78,289 |
| Reporting Service | — | 36,727 | 55,993 | 37,765 |
| Reciprocal Agreements | 398,402 | 592,832 | 694,252 | 416,500 |
| Interest Penalties | 33,145 | 85,210 | 115,881 | 70,058 |
| Auction Proceeds | — | 25,352 | 36,214 | 18,140 |
| Total Funds Escheated | $10,770,439 | $10,533,407 | $15,322,383 | $ 17,510,582 |
| Number of Reciprocal/Exchange Agreements | $ 24 | $ 25 | $ 26 | $ 29 |
| Number of Positive Reports Received | 2,320 | 2,505 | 3,082 | 3,319 |
| Number of Reciprocal Reports Received | 15 | 14 | 22 | 22 |
| Total Reports Received | $ 2,335 | $ 2,519 | $ 3,104 | $ 3,341 |
| Amount of Funds Received | $10,372,037 | $ 9,940,575 | $14,628,131 | $ 17,094,082 |
| Amount Received from Reciprocal States | 398,402 | 592,832 | 694,252 | 416,500 |
| Total Funds Received | $10,770,439 | $10,533,407 | $15,322,383 | $ 17,510,582 |
| Number of Refunds Paid | $ 3,882 | $ 5,381 | $ 3,319 | $ 5,026 |
| Number of Refunds to Reciprocal States | 20 | 25 | 22 | 13 |
| Total Refunds Paid | $ 3,902 | $ 5,406 | $ 3,341 | $ 5,039 |
| Amount of Refunds Paid | $ 1,494,033 | $ 1,983,521 | $ 1,668,148 | $ 2,460,773 |
| Amount Sent to Reciprocal States | 351,919 | 457,406 | 476,980 | 202,204 |
| Total Amount Refunded | $ 1,845,952 | $ 2,440,927 | $ 2,145,128 | $ 2,662,977 |
| Investment Income | $ 5,867,201 | $ 6,831,712 | $ 7,696,528 | $ 8,738,033 |
| Less Administrative Expenses | 739,829 | 842,793 | 961,388 | 1,014,110 |
| Amount Due to SEAA | $ 5,127,372 | $ 5,988,919 | $ 6,735,140 | $ 7,723,923 |
| Number of Loans Made to Students | 1,854 | 1,626 | 2,263 | 2,350 |
| Fund Balance | $65,368,141 | $73,461,021 | $86,637,876 | $101,630,214 |
| Percent of Administrative Expense to Receipts & Refunds | 5.86% | 6.49% | 5.50% | 5.01% |

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# Financial Statements

## TABLE OF CONTENTS


| | | Page |
|---|---|---|
| **OPERATING FUNDS** | | |
| **Exhibit A** | Combined Balance Sheet — All Departmental Operating Fund Types and Account Groups | A-2 |
| **Exhibit B** | Combining Statement of Revenues, Expenditures, and Changes in Fund Balance — Departmental Expendable Trust Funds | A-4 |
| **Exhibit C** | Statement of Departmental Receipts and Expenditures — Budget and Actual (Budgetary Basis) — General Fund (Departmental Activities Only) | A-6 |
| **Exhibit D** | Notes to the Financial Statements — All Departmental Operating Fund Types and Account Groups | A-7 |
| **Schedule 1** | Combining Balance Sheet — Departmental Expendable Trust Funds | A-10 |
| **Schedule 2** | Combining Statement of Revenues, Expenditures, and Changes in Fund Balance — Departmental Expendable Trust Funds | A-12 |
| **Schedule 3** | Combining Balance Sheet — Departmental Pension Funds | A-14 |
| **Schedule 4** | Combining Statement of Revenues, Expenditures, and Changes in Fund Balance — Departmental Pension Funds | A-16 |
| **INVESTMENT POOL** | | |
| **Exhibit A** | Statement of Assets and Liabilities — Investment Pool | A-18 |
| **Exhibit B** | Statement of Revenues, Expenditures, and Other Financing Sources and Uses — Investment Pool | A-19 |
| **Exhibit C** | Notes to the Financial Statements — Investment Pool | A-20 |
| **Schedule 1** | Statement of Assets and Liabilities by Segment — Investment Pool | A-24 |
| **Schedule 2** | Statement of Revenues, Expenditures, and Other Financing Sources and Uses by Segment — Investment Pool | A-26 |
| **Schedule 3** | Schedule of Investments by Type, by Segment — Investment Pool | A-28 |
| **Schedule 4** | Schedule of Participants' Balances by Type, by Segment — Investment Pool | A-30 |
| **Schedule 5** | Schedule of Participants' Distributed Earnings by Type, by Segment — Investment Pool | A-30 |

DEPARTMENT OF STATE TREASURER
COMBINED BALANCE SHEET
ALL DEPARTMENTAL OPERATING FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1993

| | Governmental Fund Type | | |
|---|---|---|---|
| ASSETS | General Fund (Departmental) | General Fund (Special Appropriations) | General Fund (Special Program) |
| Cash and cash equivalents | $ 28,375 | $145,000 | $32,236,049 |
| Accounts receivable - interdepartmental | 21,437 | | |
| Accounts receivable - local government | 77,245 | | |
| Accounts receivable - contributions | | | 11,417,734 |
| Accounts receivable - other | | | |
| Accrued interest receivable | | | |
| Inventories | 30,886 | | |
| Investments | | | 35,722,079 |
| Fixed assets | | | |
| Total Assets | $157,943 | $145,000 | $79,375,862 |
| **LIABILITIES AND FUND EQUITY** | | | |
| Liabilities: | | | |
| Accounts payable - federal government | $ | $ | $ |
| Accounts payable - local government | | | |
| Accounts payable - interdepartmental | | | |
| Accounts payable - other | 148,100 | | |
| Accrued expenses | 676,110 | | |
| Deferred income | | | |
| Total Liabilities | 824,210 | | |
| Fund Equity: | | | |
| Investment in fixed assets | | | |
| Fund Balance: | | | |
| Reserved for trust beneficiaries | | 145,000 | 79,375,862 |
| Reserved for inventories | 30,886 | | |
| Unreserved | (697,153) | | |
| Total Fund Balance | (666,267) | 145,000 | 79,375,862 |
| Total Fund Equity | (666,267) | 145,000 | 79,375,862 |
| Total Liabilities and Fund Balance | $157,943 | $145,000 | $79,375,862 |

The accompanying notes to the financial statements are an integral part of this statement.

| Fiduciary Fund Type | | | Account Group | Total |
|---|---|---|---|---|
| Expendable Trust Funds | Pension Funds | Agency Fund | Fixed Assets (Departmental) | (Memorandum Only) |
| $ 16,278,650 | $ 29,570,522 | $216,344,841 | $ | $ 294,603,437 |
| | | | | 21,437 |
| | | | | 77,245 |
| 3,574,982 | 97,080,871 | | | 112,073,587 |
| 1,372,546 | 412,119 | | | 1,784,665 |
| 79,592 | 522,480 | 1,066,910 | | 1,668,982 |
| | | | | 30,886 |
| 301,073,942 | 22,234,268,856 | | | 22,571,064,877 |
| | | | 1,691,732 | 1,691,732 |
| $322,379,712 | $22,361,854,848 | $217,411,751 | $1,691,732 | $22,983,016,848 |
| $ 261,639 | $ | $ | $ | $ 261,639 |
| | | 217,411,751 | | 217,411,751 |
| 7,852,209 | | | | 7,852,209 |
| 3,256,988 | 175,269 | | | 3,580,357 |
| | | | | 676,110 |
| 73,842 | | | | 73,842 |
| 11,444,678 | 175,269 | 217,411,751 | | 229,855,908 |
| | | | 1,691,732 | 1,691,732 |
| 310,935,034 | 22,361,679,579 | | | 22,752,135,475 |
| | | | | 30,886 |
| | | | | (697,153) |
| 310,935,034 | 22,361,679,579 | | | 22,751,469,208 |
| 310,935,034 | 22,361,679,579 | | 1,691,732 | 22,753,160,940 |
| $322,379,712 | $22,361,854,848 | $217,411,751 | $1,691,732 | $22,983,016,848 |

# DEPARTMENT OF STATE TREASURER
# COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
# DEPARTMENTAL EXPENDABLE TRUST FUNDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 1993

| | Governmental Fund Type | | |
|---|---|---|---|
| | General Fund (Departmental) | General Fund (Special Appropriations) | General Fund (Special Program) |
| Revenues: | | | |
| Investment income | $ | $ | $ 3,093,054 |
| Contributions (employer/employee) | | | 126,725,580 |
| Federal grants | 253,000 | | |
| Court fees | | | |
| Current year's escheats | | | |
| Service charges | 6,106,388 | | |
| Miscellaneous | 3,579 | | |
| Total Revenues | 6,362,967 | | 129,818,634 |
| Expenditures: | | | |
| Current administration | | | |
| General | 251,047 | | |
| Escheats | 887,408 | | |
| Investment and banking | 3,219,135 | | |
| State and local government finance | 1,759,748 | | |
| Retirement systems | 4,548,690 | | |
| Firemen's Pension Fund | 235,511 | | |
| Advisory Council - Vocational Education | 378,523 | | |
| Retirement and other benefits paid | | | 104,797,278 |
| Refunds | | | |
| Management fees | | | |
| Total Expenditures | 11,280,062 | | 104,797,278 |
| Revenues Over (Under) Expenditures | (4,917,095) | | 25,021,356 |
| Other Financing Sources (Uses): | | | |
| Appropriations | 4,844,846 | 5,389,112 | |
| Interdepartmental In | 404,292 | | |
| Interdepartmental Out | (115,387) | (5,379,112) | |
| Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | 216,656 | 10,000 | 25,021,356 |
| Fund Balance: July 1, 1993 | (889,316) | 135,000 | 54,354,506 |
| Adjust Reserve for Related Assets | 6,393 | | |
| Fund Balance: June 30, 1993 | $ (666,267) | $ 145,000 | $ 79,375,862 |

The accompanying notes to the financial statements are an integral part of this statement.

| Fiduciary Fund Types | | Total |
|---|---|---|
| Expendable Trust Funds | Pension Funds | (Memorandum Only) |
| $ 26,527,282 | $ 1,904,037,245 | $ 1,933,657,581 |
| 46,165,015 | 1,135,195,606 | 1,308,086,201 |
| | | 253,000 |
| 930,716 | 4,180,071 | 5,110,787 |
| 17,510,582 | | 17,510,582 |
| | | 6,106,388 |
| 18,596 | 2,343,442 | 2,365,617 |
| 91,152,191 | 3,045,756,364 | 3,273,090,156 |
| | | 251,047 |
| 117,493 | | 1,004,901 |
| | | 3,219,135 |
| | | 1,759,748 |
| | | 4,548,690 |
| | | 235,511 |
| | | 378,523 |
| 41,900,945 | 899,822,291 | 1,046,520,514 |
| 5,065,377 | 77,818,445 | 82,883,822 |
| 1,585,772 | 3,715,660 | 5,301,432 |
| 48,669,587 | 981,356,396 | 1,146,103,323 |
| 42,482,604 | 2,064,399,968 | 2,126,986,833 |
| | | 10,233,958 |
| (7,723,923) | 5,696,193 | (1,623,438) |
| | (497,181) | (5,991,680) |
| 34,758,681 | 2,069,598,980 | 2,129,605,673 |
| 276,176,353 | 20,292,080,599 | 20,621,857,142 |
| | | 6,393 |
| $310,935,034 | $22,361,679,579 | $22,751,469,208 |

Exhibit C

# DEPARTMENT OF STATE TREASURER
## STATEMENT OF DEPARTMENTAL RECEIPTS AND EXPENDITURES
## BUDGET AND ACTUAL (BUDGETARY BASIS)
## GENERAL FUND (Departmental Activities Only)
## FOR THE FISCAL YEAR ENDED JUNE 30, 1993

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| Departmental Expenditures | | | |
| Current administration: | | | |
| General administration | $ 627,191 | $ 620,954 | $ 6,237 |
| Support services | 2,191,376 | 1,919,389 | 271,987 |
| Escheat operations | 970,664 | 897,964 | 72,700 |
| Investment & banking operations | 3,900,313 | 3,466,052 | 434,261 |
| Local government operations | 1,821,893 | 1,755,404 | 66,489 |
| Retirement operations | 5,457,246 | 4,781,462 | 675,784 |
| Advisory Council on Education | 423,697 | 347,003 | 76,694 |
| Total Departmental Expenditures | 15,392,380 | 13,788,228 | 1,604,152 |
| Departmental Receipts | | | |
| Current administration: | | | |
| General administration | 283,868 | 290,144 | 6,276 |
| Support services | 2,191,376 | 1,919,389 | (271,987) |
| Escheat operations | 970,664 | 897,964 | (72,700) |
| Investment & banking operations | 190,610 | 232,213 | 41,603 |
| Local government operations | 626,343 | 681,190 | 54,847 |
| Retirement operations | 5,226,268 | 4,575,479 | (69,027) |
| Advisory Council on Education | 423,697 | 347,003 | (76,694) |
| Total Departmental Receipts | 9,912,826 | 8,943,382 | (969,444) |
| Appropriation | $ 5,479,554 | $ 4,844,846 | $ 634,708 |

The accompanying notes to the financial statements are an integral part of this statement.

# NORTH CAROLINA DEPARTMENT OF STATE TREASURER
# NOTES TO THE FINANCIAL STATEMENTS
# ALL DEPARTMENTAL OPERATING
# FUND TYPES AND ACCOUNT GROUPS
# JUNE 30, 1993

1. Principles of Presentation

These statements include all operations of budgetary funds administered by the Department of State Treasurer. They do not reflect, nor are they intended to reflect, the financial condition of the State of North Carolina. Nor do they reflect the investment activity of the State Treasurer except the results as shown in the budgetary funds. The activity of the investment pools are shown in separate financial statements published concurrently herewith. These operations are broken down by type of fund as follows:

A. Governmental Fund Types — Departmental Operations Only

**General Fund** — The operations shown include all administrative expenses and offsetting revenues in Budget Code 13410. Unexpended federal grant revenues in Budget Code 33410 are also included.

**General Fund** — Special Appropriation — This shows General Fund transfers to the Retirement System for Firemen and Rescue Squad Workers Pension Fund. Death Benefit payments for law enforcement officers and firemen and rescue squad workers are also included. (Budget Code 13412)

**General Fund** — Special Program — This includes the activity of The Retiree Health Premium Fund (Budget Code 19342)

B. Fiduciary Fund Types

**Expendable Trust Funds** — Includes ten trust funds whose corpus and income are restricted by law to expenditures necessary to carry out the funds' purpose. These trust funds are:

Disability Income Plan of North Carolina (Budget Code 63421)
Public Employees' Social Security Agency Fund (Budget Code 63411)
Teachers' and State Employees' Benefit Fund (Budget Code 63429)
Escheat Fund (Budget Code 63412)
Assurance of Land Title Fund (Budget Code 63415)
Legislative Retirement Fund (Budget Code 63422)
Absentee Insurance Fund (Budget Code 63416)
Pine Mountain Lakes Lot Purchase Fund (Budget Code 63419)
Register of Deeds Supplemental Pension Fund (Budget Code 63432)
Educational Facilities Finance Agency (Budget Code 63440)

**Pension Funds** — Includes seven retirement trust funds:

Teachers' and State Employees' Retirement System (Budget Code 63423)
Local Governmental Employees' Retirement System (Budget Code 63426)
Consolidated Judicial Retirement System (Budget Code 63425)
N. C. National Guard Pension Fund (Budget Code 63430)
Legislative Retirement System (Budget Code 63431)
Firemen's Pension Fund (Budget Code 63434)
Rescue Squad Workers' Pension Fund (Budget Code 63435)

**Agency Fund** — Includes one fund to account for deposits made to the State Treasurer by local governmental units for investment purposes (Budget Code 03410).

C. The Fixed Assets Account Group is a self-balancing set of accounts to record the stewardship of the Department for the furniture and equipment bought and used in the Department.

The financial statements are presented in accordance with the Statements of the Governmental Accounting Standards Board. The presentation differs from the classic presentations because of fundamental differences in operations in the Department from those illustrated in the classic presentations. Because the Pension Funds purchase administrative services from the Central Fund by payment of management fees, there is no difference in the application of accounting principles between the pension funds and the governmental fund types. We have for the convenience of the reader included the pension funds with the governmental fund types in the Statement of Revenues, Expenditures, and Changes in Fund Balance.

2. Summary of Significant Accounting Policies

A. Basis of Accounting — Governmental and expendable trusts are accounted for on the cash basis of accounting during the year. At year end, necessary adjusting journal entries are made to change the basis of accounting to the modified accrual basis, which is the basis on which the funds are reported in these financial statements. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available to pay current-period liabilities. Expenditures are recognized on the accrual basis except that purchases of supplies for inventory are recognized as expenditures in the period in which the supplies were received.

Pension trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses when incurred.

B. Budgetary Control — Budgetary control is exercised only over the operations accounted for by the Department in the General Fund. The budget as shown in the statements is the budget as adopted by the General Assembly and as modified in accordance with established statutory procedures. All appropriations lapsed at the end of the year.

C. Cash and Cash Equivalents are the moneys of the various funds which the State Treasurer holds by law for transactional purposes. Interest is earned on the balances.

D. Inventories — Inventories consist solely of postage and supplies and are recorded at estimated actual costs.

E. Fixed Assets — Fixed assets are recorded at acquisition costs. The account group includes only those assets purchased by the Department and currently in service in the Department. Since all assets are acquired through the General Fund and used in General Fund operations, no depreciation is recognized.

F. Trust Fund Assets and Equity — Assets of trust funds are maintained at cost. The net assets of each trust fund are held solely for the benefit of the lawful beneficiaries of the trust funds. Net assets of trust funds are shown in the financial statements as fund balance reserved for trust beneficiaries.

G. Investments and Investment Income — It is the policy of the State to treat investments in, and investment income from, the Investment Pools of the State Treasurer as quasi-external transactions. Consequently the investments by the trust funds in the investment pools with medium to long-term horizons are shown as investments, and allocations of income from the investment pools are shown as investment income. Allocations of investment income are made by the investment pools on a pro-rata basis from net income of each fund.

H. Management Fees — All administrative operations are accounted for in the General Fund. Each trust fund benefiting from the administration is charged its calculated share of the administrative costs. Management fees are considered quasi-external transactions.

I. Interdepartmental Transfer/Receivable/Payable — The major elements are transfers of resources to carry out programmatic activities in the receiving fund.

J. Vacation and Sick Pay — Vacation and sick pay are recorded as expenditures only when taken (or paid in the case of vacation pay of retiring or terminating employees).

3. Deposits and Investments

Deposits and investments are reported in detail in the financial statements of the Pooled Investment Fund in the State Treasurer's Annual Report for June 30, 1993. As reported therein more fully, there are no material amounts of deposits which are not fully insured or collateralized. Total investments in the State Treasurer's Investment Pool have a book value of $26,715,856,723 and a market value of $31,590,802,252.

4. Reconciliation of Budgetary Basis and GAAP Basis

The Combined Statement of Revenues and Expenditures — Budget and Actual for the General Fund presents the comparisons of the legally adopted budget with actual data recorded on the budgetary basis. Since there are substantial differences between the budgetary basis of accounting and the GAAP basis of accounting, the following provides the reconciliation between the two bases of accounting:

| | Revenues | Expenditures | Fund Balance |
|---|---|---|---|
| Per budgetary basis, June 30, 1993 | $8,943,382 | $13,788,228 | $ |
| Eliminate refunds of expenditures from both expenditures and receipts | (2,209,775) | (2,209,775) | |
| Reclassify items to transfers | (404,290) | (115,386) | |
| Net change in accruals at beginning and end of year | 33,650 | (183,005) | 216,655 |
| Adjustment to reserve fund balance | | | 6,393 |
| Fund balance at beginning of year | | | (889,315) |
| Per GAAP basis, June 30, 1993 | $6,362,967 | $11,280,062 | ($666,267) |

There were no expenditures in excess of appropriations in a budget during the year.

5. Vacation and Sick Leave

The Department, in accordance with State policy, records the cost of vacation and sick leave when taken and paid rather than when the leave is earned. State policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or paid upon termination of employment with the State. Under this policy, the accumulated vacation leave for each employee at each June 30th would equal the leave carried forward at the previous December 31 plus the leave earned and less the leave taken between January 1 and June 30. The accumulation of unused sick leave earned is unlimited, but the employee cannot be compensated for any unused sick leave upon termination of employment. Consequently, at June 30, 1993, the Department had an actual, but unrecorded, liability for unused vacation leave in the amount of $532,773 and a contingent liability for the unused sick leave in the amount of $1,756,565.

6. General Fund — Departmental Deficit

The data shown for the General Fund in the financial statements is only that part of the General Fund operated through the Department. Negative figures shown are the accumulated differences in accruals between the budgetary basis and the GAAP basis. On the budgetary basis, there is a zero fund balance for the Department.

7. Fixed Assets

The breakdown by type of fixed assets at book value and the changes in fixed assets during the year are:

| | Beginning Balance | Prior Year Asset Adjustment | Acquisitions | Retirements | Ending Balance |
|---|---|---|---|---|---|
| Office Furniture and Equipment | $ 274,417 | $ 0 | $53,176 | $ 0 | $ 327,593 |
| Data Processing Equipment | 1,306,762 | 42,303 | 15,074 | 0 | 1,364,139 |
| Total Fixed Assets | $1,581,179 | $42,303 | $68,250 | $ 0 | $1,691,732 |

No depreciation has been recorded on any fixed asset.

8. Pensions

All full-time permanent personnel in the Department are members of the Teachers' and State Employees' Retirement System. Total pension expense recorded during the year was $674,470. Information on the Retirement System may be found in the annual report of the Department.

DEPARTMENT OF STATE TREASURER
COMBINING BALANCE SHEET
DEPARTMENTAL EXPENDABLE TRUST FUNDS
JUNE 30, 1993

| ASSETS | Escheat Fund | Disability Salary Income Plan of North Carolina | Teachers' and State Employees' Benefit Fund | Public Employees' Social Security Agency Fund |
|---|---|---|---|---|
| Cash and cash equivalents | $ 9,774,103 | $ 1,798,714 | $ 3,388,834 | $415,565 |
| Accounts receivable - contributions | | 2,384,898 | 1,090,833 | |
| Accounts receivable - other | | 1,062,437 | 310,109 | |
| Accrued interest receivable | 48,775 | 10,269 | 14,777 | 2,145 |
| Investments | 99,531,259 | 102,349,415 | 96,397,146 | |
| Total Assets | $109,354,137 | $107,605,733 | $101,201,699 | $417,710 |
| **LIABILITIES AND FUND EQUITY** | | | | |
| Liabilities | | | | |
| Accounts payable - federal government | $ | $ | $ | $261,639 |
| Accounts payable - interdepartmental | 7,723,923 | | 128,286 | |
| Accounts payable - other | 70,894 | 88,713 | 3,097,381 | |
| Deferred income | 73,842 | | | |
| Total Liabilities | 7,868,659 | 88,713 | 3,225,667 | 261,639 |
| Fund Balance | | | | |
| Reserved for trust beneficiaries | 101,485,478 | 107,517,020 | 97,976,032 | 156,071 |
| Total Fund Balance | 101,485,478 | 107,517,020 | 97,976,032 | 156,071 |
| Total Fund Equity | 101,485,478 | 107,517,020 | 97,976,032 | 156,071 |
| Total Liabilities and Fund Balance | $109,354,137 | $107,605,733 | $101,201,699 | $417,710 |

The accompanying notes to the financial statements are an integral part of this statement.

| Legislative Retirement Fund | Reg. of Deeds Supplemental Pension Fund | Assurance of Land Title Fund | Absentee Insurance Fund | Pine Mountain Lakes Lot Purchase Fund | Educational Facilities Finance Agency | Total Expendable Trust Funds |
|---|---|---|---|---|---|---|
| $6,840 | $ 461,359 | $48,934 | $198,757 | $16,801 | $168,743 | $ 16,278,650 |
| | 99,251 | | | | | 3,574,982 |
| | | | | | | 1,372,546 |
| 37 | 2,223 | 253 | 1,026 | 87 | | 79,592 |
| | 2,796,122 | | | | | 301,073,942 |
| $6,877 | $3,358,955 | $49,187 | $199,783 | $16,888 | $168,743 | $322,379,712 |
| | | | | | | |
| $ | $ | $ | $ | $ | $ | $ 261,639 |
| | | | | | | 7,852,209 |
| | | | | | | 3,256,988 |
| | | | | | | 73,842 |
| | | | | | | 11,444,678 |
| | | | | | | |
| 6,877 | 3,358,955 | 49,187 | 199,783 | 16,888 | 168,743 | 310,935,034 |
| 6,877 | 3,358,955 | 49,187 | 199,783 | 16,888 | 168,743 | 310,935,034 |
| 6,877 | 3,358,955 | 49,187 | 199,783 | 16,888 | 168,743 | 310,935,034 |
| $6,877 | $3,358,955 | $49,187 | $199,783 | $16,888 | $168,743 | $322,379,712 |

DEPARTMENT OF STATE TREASURER
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
DEPARTMENTAL EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1993

| | Escheat Fund | North Carolina Disability Fund | Teachers' and State Employees' Benefit Fund | Public Employees' Social Security Agency Fund |
|---|---|---|---|---|
| Revenues | | | | |
| Investment income | $ 8,736,395 | $ 8,887,965 | $ 8,605,490 | $ 26,648 |
| Contributions (employer/employee) | | 26,999,202 | 18,114,644 | |
| Court fees | | | 928,905 | |
| Current year's escheats | 17,510,582 | | | |
| Miscellaneous | 1,638 | 2,388 | | |
| Total Revenues | 26,248,615 | 35,889,555 | 27,649,039 | 26,648 |
| Expenditures | | | | |
| Current administration | | | | |
| Escheats | 117,493 | | | |
| Retirement and other benefits paid | | 23,921,915 | 17,474,377 | |
| Refunds | 2,662,977 | | 2,401,895 | |
| Management fees | 896,617 | 294,835 | 153,108 | |
| Total Expenditures | 3,677,087 | 24,216,750 | 20,029,380 | |
| Revenues Over (Under) Expenditures | 22,571,528 | 11,672,805 | 7,619,659 | 26,648 |
| Other Financing Sources (Uses) | | | | |
| Interdepartmental | (7,723,923) | | | |
| Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | 14,847,605 | 11,672,805 | 7,619,659 | 26,648 |
| Fund Balance: July 1, 1992 | 86,637,873 | 95,844,215 | 90,356,373 | 129,423 |
| Fund Balance: June 30, 1993 | $101,485,478 | $107,517,020 | $97,976,032 | $156,071 |

The accompanying notes to the financial statements are an integral part of this statement.

| Legislative Retirement Fund | Reg. of Deeds Supplemental Pension Fund | Assurance of Land Title Fund | Absentee Insurance Fund | Pine Mountain Lakes Lot Purchase Fund | Educational Facilities Finance Agency | Total Expendable Trust Funds |
|---|---|---|---|---|---|---|
| $ 537 | $ 253,294 | $ 3,139 | $ 12,736 | $ 1,078 | $ | $ 26,527,282 |
| 79,734 | 971,435 | | | | | 46,165,015 |
| | | 67 | 1,744 | | | 930,716 |
| | | | | | | 17,510,582 |
| | | | | | 14,570 | 18,596 |
| 80,271 | 1,224,729 | 3,206 | 14,480 | 1,078 | 14,570 | 91,152,191 |
| | | | | | | 117,493 |
| 80,100 | 424,553 | | | | | 41,900,945 |
| 505 | | | | | | 5,065,377 |
| 377 | 240,835 | | | | | 1,585,772 |
| 80,982 | 665,388 | | | | | 48,669,587 |
| (711) | 559,341 | 3,206 | 14,480 | 1,078 | 14,570 | 42,482,604 |
| | | | | | | (7,723,923) |
| (711) | 559,341 | 3,206 | 14,480 | 1,078 | 14,570 | 34,758,681 |
| 7,588 | 2,799,614 | 45,981 | 185,303 | 15,810 | 154,173 | 276,176,353 |
| $ 6,877 | $3,358,955 | $49,187 | $199,783 | $16,888 | $168,743 | $310,935,034 |

**DEPARTMENT OF STATE TREASURER**
**COMBINING BALANCE SHEET**
**DEPARTMENTAL PENSION FUNDS**
**JUNE 30, 1993**

| ASSETS | Teachers' and State Employees' Retirement System | Local Governmental Employees' Retirement System |
|---|---|---|
| Cash and cash equivalents | $ 21,093,939 | $ 7,443,987 |
| Accounts receivable - contributions | 76,750,446 | 19,524,982 |
| Accounts receivable - other | 242,695 | 169,424 |
| Accrued interest receivable | 333,229 | 181,212 |
| Investments | 17,798,930,054 | 4,185,753,332 |
| Total Assets | $17,897,350,363 | $4,213,072,937 |
| **LIABILITIES AND FUND EQUITY** | | |
| Liabilities | | |
| Accounts payable - other | $ 117,924 | $ 54,728 |
| Total Liabilities | 117,924 | 54,728 |
| Fund Balance | | |
| Reserved for trust beneficiaries | 17,897,232,439 | 4,213,018,209 |
| Total Fund Balance | 17,897,232,439 | 4,213,018,209 |
| Total Fund Equity | 17,897,232,439 | 4,213,018,209 |
| Total Liabilities and Fund Balance | $17,897,350,363 | $4,213,072,937 |

The accompanying notes to the financial statements are an integral part of this statement.

Schedule 3

| Consolidated Judicial Retirement System | National Guard Pension Fund | Legislative Retirement System | Firemen's Pension Fund | Rescue Squad Workers' Pension Fund | Total Pension Funds |
|---|---|---|---|---|---|
| $ 501,993 | $ 199,878 | $ 201,211 | $ 112,489 | $ 17,025 | $ 29,570,522 |
| 737,227 | | 68,216 | | | 97,080,871 |
| | | | | | 412,119 |
| 3,352 | 739 | 1,160 | 2,548 | 240 | 522,480 |
| 130,941,828 | 15,461,491 | 8,772,620 | 84,479,708 | 9,929,823 | 22,234,268,856 |
| $132,184,400 | $15,662,108 | $9,043,207 | $84,594,745 | $9,947,088 | $22,361,854,848 |
| $ | $ 2,617 | $ | $ | $ | $ 175,269 |
| | 2,617 | | | | 175,269 |
| 132,184,400 | 15,659,491 | 9,043,207 | 84,594,745 | 9,947,088 | 22,361,679,579 |
| 132,184,400 | 15,659,491 | 9,043,207 | 84,594,745 | 9,947,008 | 22,361,679,579 |
| 132,184,400 | 15,659,491 | 9,043,207 | 84,594,745 | 9,947,088 | 22,361,679,579 |
| $132,184,400 | $15,662,108 | $9,043,207 | $84,594,745 | $9,947,088 | $22,361,854,848 |

## DEPARTMENT OF STATE TREASURER
## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
## DEPARTMENTAL PENSION FUNDS
## FOR THE FISCAL YEAR ENDED JUNE 30, 1993

| | Teachers' and State Employees' Retirement System | Local Governmental Employees' Retirement System |
|---|---|---|
| Revenues | | |
| Investment income | $ 1,525,745,745 | $ 356,882,300 |
| Contributions (employer/employee) | 871,983,313 | 251,367,604 |
| Court fees | | 4,180,071 |
| Miscellaneous | 904,927 | 70,077 |
| Total Revenues | 2,398,633,985 | 612,500,052 |
| Expenditures | | |
| Retirement and other benefits paid | 736,182,035 | 147,312,816 |
| Refunds | 47,599,849 | 29,820,143 |
| Management fees | 2,701,313 | 979,643 |
| Total Expenditures | 786,483,197 | 178,112,602 |
| Revenues Over (Under) Expenditures | 1,612,150,788 | 434,387,450 |
| Other Financing Sources (Uses) | | |
| Interdepartmental - In | | |
| Interdepartmental - Out | | |
| Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | 1,612,150,788 | 434,387,450 |
| Fund Balance: July 1, 1992 | 16,285,081,651 | 3,778,630,759 |
| Fund Balance: June 30, 1993 | $17,897,232,439 | $4,213,018,209 |

The accompanying notes to the financial statements are an integral part of this statement.

| Consolidated Judicial Retirement System | National Guard Pension Fund | Legislative Retirement System | Firemen's Pension Fund | Rescue Squad Workers' Pension Fund | Total Pension Funds |
|---|---|---|---|---|---|
| $ 11,160,504 | $ 1,272,352 | $ 732,044 | $ 7,383,385 | $ 860,915 | $ 1,904,037,245 |
| 8,902,190 | 2,123,497 | 819,002 | | | 1,135,195,606 |
| | | | | | 4,180,071 |
| 64 | | 1,464 | 1,212,482 | 154,428 | 2,343,442 |
| 20,062,758 | 3,395,849 | 1,552,510 | 8,595,867 | 1,015,343 | 3,045,756,364 |
| 7,490,172 | 1,236,784 | 382,351 | 6,585,633 | 632,500 | 899,822,291 |
| 68,839 | | 14,396 | 259,468 | 55,750 | 77,818,445 |
| 18,495 | 13,668 | 2,541 | | | 3,715,660 |
| 7,577,506 | 1,250,452 | 399,288 | 6,845,101 | 688,250 | 981,356,396 |
| 12,485,252 | 2,145,397 | 1,153,222 | 1,750,766 | 327,093 | 2,064,399,968 |
| | | | 5,255,932 | 440,261 | 5,696,193 |
| | | | (445,827) | (51,354) | (497,181) |
| 12,485,252 | 2,145,397 | 1,153,222 | 6,560,871 | 716,000 | 2,069,598,980 |
| 119,699,148 | 13,514,094 | 7,889,985 | 78,033,874 | 9,231,088 | 20,292,080,599 |
| $132,184,400 | $15,659,491 | $9,043,207 | $84,594,745 | $9,947,088 | $22,361,679,579 |

Exhibit A

# NORTH CAROLINA DEPARTMENT OF STATE TREASURER
## STATEMENT OF ASSETS AND LIABILITES
## INVESTMENT POOL
## FOR THE FISCAL YEAR ENDED JUNE 30, 1993

| | |
|---|---|
| **ASSETS** | |
| Cash in Bank | $ 52,378,744 |
| Cash with Equity Managers | 41,702 |
| Accounts Receivable | 64,460,488 |
| Accrued Investment Income | 365,996,088 |
| Investments at Book Value | 26,715,856,724 |
| Total Assets | $27,198,733,746 |
| **LIABILITIES** | |
| Accounts Payable | $ 138,825,952 |
| Undistributed Income | 20,601,810 |
| Deferred Income | 942,546 |
| Participants' Balances | 27,038,363,438 |
| Total Liabilities | $27,198,733,746 |

The accompanying Notes to the Financial Statements are an integral part of this Statement.

Exhibit B

# NORTH CAROLINA DEPARTMENT OF STATE TREASURER
## STATEMENT OF REVENUES, EXPENDITURES, AND OTHER FINANCING SOURCES AND USES
## INVESTMENT POOL
## FOR THE FISCAL YEAR ENDED JUNE 30, 1993

| | |
|---|---|
| Revenues | |
| Investment Income | |
| Interest | $1,591,838,560 |
| Dividends | 223,577,173 |
| Income from Real Estate Trusts | 7,134,204 |
| Income from Venture Capital | 179,498 |
| Net Gains (Losses) from Sales of Securities | 344,051,230 |
| Supplemental Income: | |
| Securities Lending | 6,838,479 |
| Stock Options Written | 2,182,159 |
| Dividend Reinvestments | 81,391 |
| Fail Balance Earnings | 37,598 |
| Miscellaneous | 19,987 |
| Total Supplemental Income | 9,159,614 |
| Total Revenues | 2,175,940,279 |
| Expenditures | |
| Management Fees | 3,854,001 |
| Net Income Available for Distribution | 2,172,086,278 |
| Income Distributed | (2,168,925,722) |
| Change in Undistributed Income | 3,160,556 |
| Undistributed Income, July 1, 1992 | 17,441,254 |
| Undistributed Income, June 30, 1993 | $ 20,601,810 |

The accompanying Notes to the Financial Statements are an integral part of this Statement.

# NORTH CAROLINA DEPARTMENT OF STATE TREASURER
## NOTES TO THE FINANCIAL STATEMENTS
## INVESTMENT POOL
## JUNE 30, 1993

1. Principles of Presentation

These statements include only the various investment portfolios (called "investment funds") in the investment pool run by the State Treasurer. They do not show, nor are they intended to show, any operations of the Department which are shown in financial statements published concurrently herewith. They do not reflect, nor are they intended to reflect, the financial condition of the State of North Carolina.

Fiduciary Fund Types

Investment Pool — Includes within a single entity the seven investment portfolios established by the State Treasurer for the investment of all moneys deposited with the State Treasurer, whether State moneys or moneys voluntarily deposited for investment purposes only. The seven investment portfolios are:

Short-term Investment Fund — to provide for State moneys generally and all other moneys required to be deposited with the State Treasurer and moneys voluntarily deposited with the State Treasurer by State Agencies.

Liquid Asset Fund — to provide for the investment of moneys voluntarily deposited by non-State Agencies with the State Treasurer for investment only.

Long-term Investment Fund — to provide investments in intermediate and long-term Treasury, Agency, and corporate bonds for the pension trust funds and certain large expendable trust funds.

Equity Investment Fund — to provide investments in equity securities for the pension trust funds.

Real Estate Investment Fund — to provide investments in real estate through trusts administered by third party professionals for the pension trust funds.

Bond Proceeds Fund — to provide for maintaining the records on investment of bond proceeds subject to federal arbitrage regulations and segregating the interest estimated to be subject to transfer to the U.S. Treasury.

Venture Capital Investment Fund — provides for investments in venture capital through trusts administered by third party professionals for the pension trust funds.

The investment pool has no counterparts in the literature on governmental accounting. The financial statements consist of a Statement of Assets and Liabilities, a Statement of Revenues, Expenditures and Other Financing Sources (Uses), and Notes to the Financial Statements. Since the investment pool has no fund balance, all assets held have an equal liability to some depositor. No cash flow statement is shown since the Statement of Revenues, Expenditures and Other Financing Sources (Uses) adequately reflects cash flows in the investment pools.

2. Summary of Significant Accounting Policies

A. Basis of Accounting — The investment pool is accounted for on the accrual basis. Security transactions are recorded as of trade date.

B. There are no operations subject to budgetary control reflected in the statements of the investment pool.

C. Cash in Bank — Deposits received and warrants cleared by the banks are reported as of the date recorded on the bank's books.

D. Investments — Investments are accounted for on the accrual basis and are reported at book value. Book value is equivalent to the original cost adjusted for the amortization of premium or discount on the scientific method. Average cost is used to calculate gain or loss on the sale of a security.

From time to time, bonds held are exchanged with a broker for other bonds offered by the broker. Substantially all exchanges are on a par-for-par basis and have the objective of maintaining the quality and yield of the portfolio over time. Exchanges are considered to be nonmarket transactions because of their overall

size in relation to the normal lots of the securities sold in the marketplace and because of the lack of an appropriate basis for estimating an equivalent market price. Because of these two conditions, exchanges are accounted for as nonmonetary transactions under APB Opinion 29.

E. Transactions in Process — Deposits in banks and warrants cleared by the banks may be reported and recorded one or more days prior to the time that the budget code to be credited is known.

F. Deposits are the liability of the investment portfolio for moneys deposited therein and invested by the portfolio.

G. Income is distributed monthly by the Short-term, Long-term, and Equity Investment Funds; daily by the Liquid Asset Fund; quarterly by the Real Estate Investment Fund; at the end of the arbitrage period by the Bond Proceeds Fund; and as cash earnings are received by the Venture Capital Investment Fund.

H. Expenses of the investment funds are paid from Budget Code 13410 and are funded from the State's General Fund. Periodically, each investment fund reimburses the General Fund for its allocated share of those expenses by depositing money to General Fund Budget Code 19997, "Banking and Investment Fees."

3. Deposits and Investments

Unless specifically exempted from the requirement, every officer and agency of the State is required by N.C.G.S. 147-77 to deposit daily, moneys received, either with the State Treasurer or in an account with a depository institution in the name of the State Treasurer with a daily report to the State Treasurer. Funds deposited with the State Treasurer for safekeeping and separate investment are included in an investment pool in one or more of seven separate investment portfolios segregated only by the investment objective of the portfolio. Each participant of each portfolio owns a pro-rata undivided interest in all deposits and/or investments in the portfolio and in the realized earnings of the portfolio.

Deposits in Financial Institutions

The State Treasurer maintains numerous deposit accounts for collecting and disbursing funds. Expenditures for the State are made by warrant drawn on the State Treasurer, which is issued by the agency receiving the goods and services. The State Treasurer processes these warrants each day when presented to him by the Federal Reserve Bank or the local clearing banks. The deposits of State agencies in the short-term investment portfolio are immediately available to the State agency, subject only to compliance with the State's budgetary laws. These deposits are shown on the balance sheet of the State of North Carolina as "Pooled Cash" and are considered to be a special form of cash and cash equivalent. The State Treasurer's pool is larger than the pooled cash by the amount of warrants issued by the agencies but not yet presented for payment through the banking system.

Agency deposits to the accounts of the State Treasurer and deposits of the State Treasurer may be made in any bank, savings and loan association, or trust company in the State approved by the State Treasurer. Depositories are required, in accordance with the rules in 20 NCAC 7 (North Carolina Administrative Code), to collateralize all balances of the State Treasurer which are not insured. Basically, these rules require that the bank maintain, as collateral in an escrow account established by the State Treasurer with a third-party bank, securities of a type enumerated in the rules, in an amount whose market value is not less than the amount of the time deposits and the average balance of demand deposits for the preceding quarter less the allowable deposit insurance on the deposits. Generally, rules require the securities to be governmental in origin (e.g., U.S. Treasury and U.S. agency obligations, or state and local government obligations) or the highest grade commercial paper and bankers' acceptances. Financial institutions generally may elect to collateralize State deposits separately (Option 1) or to include the deposits of North Carolina local government units in the same collateral pool with the State (Option 2). Financial institutions report only quarterly on bank balances and amounts deposited in escrow as collateralization of deposits. The State maintains no records of financial institution balances of local governments collateralized in the pool with State deposits. Since the amounts of local government deposits in Option 2 banks are not known, the State's risk of being undercollateralized at any given time is increased. Therefore, the institution's financial condition may cause the State Treasurer to require a particular institution to utilize Option 1 exclusively for the protection of each public depositor.

At June 30, 1993, the deposits maintained by the State Treasurer consisted of (expressed in thousands):

| | Carrying Value | Bank Balance |
|---|---|---|
| Demand | $ 52,420 | $ 68,777 |
| Time | 136,386 | 136,386 |
| Total Cash Pool | $188,806 | $205,163 |

Seventy-two percent of the balances in financial institutions were deposited under Option 2. Because the institutions complied with the collateralization policies and procedures described above, the State considers all of its deposits to be either insured or covered by collateral held by the State's agent.

Investments of the State Treasurer

All moneys in the custody of the State Treasurer, regardless of source, except required current transactional balances are fully invested at all times. All investments are segregated in appropriate investment portfolios based on the purpose of the portfolio. Income generated by each portfolio is periodically distributed to the participants.

N.C.G.S. 147-69.1(c) and 147-69.2 authorize the State Treasurer to invest in the following:

1. Obligations of or fully guaranteed by the United States and the obligations of certain federal agencies;
2. Repurchase agreements;
3. Obligations of the State of North Carolina;
4. Savings certificates issued by specified savings and loan associations;
5. Certificates of deposit issued by specified banks;
6. Shares of or deposits in specified savings and loan associations;
7. Prime quality commercial paper bearing specified ratings;
8. Bills of exchange or time drafts drawn on and accepted by specified commercial banks and eligible for use as collateral by member banks in borrowing from a Federal Reserve Bank;
9. General obligations of other states in the United States;
10. General obligations of cities, counties and special districts in North Carolina;
11. Asset-backed securities (whether considered debt or equity) bearing specific ratings;
12. Obligations of any company incorporated in the United States bearing specified ratings;
13. Notes secured by mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration on real estate located within the State of North Carolina;
14. A limited partnership interest in a partnership whose primary purpose is to invest in venture capital or corporate buyout transactions, not to exceed $30 million.
15. Obligations or securities of the North Carolina Enterprise Corporation, or a limited partnership in which the North Carolina Enterprise Corporation is the only general partner, not to exceed $20 million.
16. With respect to the Retirement Systems' assets, (a) certain specified preferred or common stocks issued by a company incorporated within or without the United States, certain mutual funds, and individual common or collective trust funds; (b) real estate investments made indirectly through fiduciary arrangements.

The investment pool is accounted for on the full accrual basis. Interest and amortization on the scientific method are accrued on fixed income securities daily. Dividends are recognized on ex-dividend date when the market recognizes the dividend as belonging to the holder on that date. Gains and losses on exchanges of fixed-income securities are deferred and amortized over the term of the reinvested security. Exchanges are the concurrent transfer out of a fixed income security with a transfer in of a fixed-income security of equal par value. Other gains and losses are recognized on the trade date at which the security is sold.

Fixed-income securities are maintained on the books and reported at amortized costs. Equity securities are maintained on the books and reported at cost. A security considered permanently impaired is revalued at market as of the time of the impairment.

The State's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the State's name.

Pooled investments maintained by the State Treasurer at June 30, 1993, are (expressed in thousands):

| | Carrying Amount | | | | |
|---|---|---|---|---|---|
| | Category | | | Total | Market |
| | 1 | 2 | 3 | Amount | Value |
| Investments Categorized: | | | | | |
| U.S. Government securities | $13,605,434 | $ 0 | $ 0 | $13,605,434 | $15,704,321 |
| Corporate bonds and notes | 5,280,391 | | | 5,280,391 | 5,871,197 |
| Corporate common stock | 5,119,547 | | | 5,119,547 | 7,039,463 |
| Repurchase agreements | 469,667 | | | 469,667 | 469,667 |
| Commercial paper | 0 | | | 0 | 0 |
| Bankers' acceptances | 0 | | | 0 | 0 |
| International bonds | 664,695 | | | 664,695 | 772,717 |
| Total Investments Categorized | $25,139,734 | $ 0 | $ 0 | $25,139,734 | $29,857,365 |
| Investments Not Categorized: | | | | | |
| Certificates of deposit* | | | | 136,386 | 136,386 |
| Mutual funds | | | | 5,000 | 5,071 |
| Equity common trust | | | | 1,159,907 | 1,375,394 |
| Venture capital investments | | | | 26,953 | 28,316 |
| Real estate trust funds | | | | 247,877 | 188,270 |
| **Total Pooled Investments** | | | | $26,715,857 | $31,590,802 |

*Certificates of deposit are a component of the deposit totals reported in the State Treasurer's deposit section of this note.

Through a safekeeping agent the State Treasurer lends, for a fee, securities from its investment fund when collateralized by cash or U.S. Treasury securities valued on a current basis at 102% of the value of the securities lent. Securities lent are not considered to have been sold nor have the securities received as collateral been considered to have been purchased. The net income from securities lending is distributed pro-rata to the participants of the portfolio from which the security came. At June 30, 1993, approximately 10.1% of the securities in the pool were on loan.

The State Treasurer occasionally sells call options against common stock owned to enhance total earnings of the Equity Investment Fund. The premiums received are maintained in investment inventory accounts until the option is repurchased in the market, exercised, or expired. When the option is repurchased in the market, the position is closed and any resulting gain or loss is shown in the income accounts as supplemental income or loss on stock options written. When the option is exercised, the position is closed and the net premium received is used to increase the gain or reduce the loss realized on the sale of the underlying stock. When the option expires, the position is closed and the net premium on the option is shown in the income accounts as supplemental income from stock options written. At June 30, 1993, there were outstanding covered call transactions with an original net premium of $883,856 and a current market value of $950,063. The underlying shares had a book value of $28,482,056 and a market value of $40,684,000.

# NORTH CAROLINA DEPARTMENT OF STATE TREASURER
## STATEMENT OF ASSETS AND LIABILITIES BY SEGMENT
## INVESTMENT POOL
## FOR THE FISCAL YEAR ENDED JUNE 30, 1993

| | SEGMENT | | |
|---|---|---|---|
| | Short-term Investment Fund | Liquid Asset Fund | Long-term Investment Fund |
| **ASSETS** | | | |
| Cash in Bank | $ 52,375,521 | $ | $ |
| Deposits in Short-term Investment Fund | | 2,605,574 | 153,054,675 |
| Cash with Equity Managers | | | |
| Accounts Receivable | | | 40,472,094 |
| Accrued Investment Income | 55,726,859 | | 294,133,625 |
| Investments, at Book Value | 4,675,217,855 | | 15,362,687,860 |
| Total Assets | $4,783,320,235 | $2,605,574 | $15,850,348,254 |
| **LIABILITIES** | | | |
| Accounts Payable | $ | $ | $ 60,131,695 |
| Undistributed Income | 20,601,810 | | |
| Deferred Income | | | 58,691 |
| Participants' Balances | 4,762,718,425 | 2,605,574 | 15,790,157,868 |
| Total Liabilities | $4,783,320,235 | $2,605,574 | $15,850,348,254 |

The accompanying notes to the financial statements are an integral part of this statement.

| Equity Investment Fund | Real Estate Investment Fund | Bond Proceeds Fund | Venture Capital Investment Fund | MEMORANDUM Intrafund Eliminations | MEMORANDUM Total |
|---|---|---|---|---|---|
| $ | $ | $ 3,223 | $ | $ | $ 52,378,744 |
| 329,528,836 | 4,061,088 | | 1,058,414 | (490,308,587) | |
| 41,702 | | | | | 41,702 |
| 23,930,785 | 57,609 | | | | 64,460,488 |
| 16,126,492 | | 9,112 | | | 365,996,088 |
| 6,284,453,927 | 247,877,400 | 118,667,000 | 26,952,682 | | 26,715,856,724 |
| $6,654,081,742 | $251,996,097 | $118,679,335 | $28,011,096 | $(490,308,587) | $27,198,733,746 |
| | | | | | |
| $ 77,767,136 | $ 927,121 | $ | $ | $ | $ 138,825,952 |
| | | | | | 20,601,810 |
| 883,855 | | | | | 942,546 |
| 6,575,430,751 | 251,068,976 | 118,679,335 | 28,011,096 | (490,308,587) | 27,038,363,438 |
| $6,654,081,742 | $251,996,097 | $118,679,335 | $28,011,096 | $(490,308,587) | $27,198,733,746 |

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER**
**STATEMENT OF REVENUES, EXPENDITURES,**
**AND OTHER FINANCING SOURCES AND USES BY SEGMENT**
**INVESTMENT POOL**
**FOR THE FISCAL YEAR ENDED JUNE 30, 1993**

| | SEGMENT | | |
|---|---|---|---|
| | Short-term Investment Fund | Liquid Asset Fund | Long-term Investment Fund |
| Revenues | | | |
| Investment Income | | | |
| Interest | $252,741,849 | $ | $1,332,763,159 |
| Short-term Investment Fund Earnings | | 146,917 | 9,144,493 |
| Dividends | | | |
| Income from Real Estate Trusts | | | |
| Income from Venture Capital | | | |
| Net Gains (Losses) from Sales of Securities | 16,899 | | 31,099,104 |
| Supplemental Income from: | | | |
| Securities Lending | 4,513,272 | | 2,307,361 |
| Stock Options Written | | | |
| Dividend Reinvestments | | | |
| Fail Balance Earnings | 3,133 | | 33,932 |
| Miscellaneous | 5,426 | | 9,239 |
| Total Supplemental Income | 4,521,831 | | 2,350,532 |
| Total Revenues | 257,280,579 | 146,917 | 1,375,357,288 |
| Expenditures | | | |
| Management Fees | 786,247 | 536 | 873,552 |
| Net Income Available for Distribution | 256,494,332 | 146,381 | 1,374,483,736 |
| Income Distributed | (253,333,776) | (146,381) | (1,374,483,736) |
| Change in Undistributed Income | 3,160,556 | | |
| Undistributed Income, July 1, 1992 | 17,441,254 | | |
| Undistributed Income, June 30, 1993 | $ 20,601,810 | $ | $ |

The accompanying notes to the financial statements are an integral part of this statement.

| | | | | MEMORANDUM | |
|---|---|---|---|---|---|
| Equity Investment Fund | Real Estate Investment Fund | Bond Proceeds Fund | Venture Capital Investment Fund | Intrafund Eliminations | Total |
| $ 1,308,358 | $ | $5,025,194 | $ | $ | $1,591,838,560 |
| 14,726,122 | 332,626 | | 101,592 | (24,451,750) | |
| 223,577,173 | | | | | 223,577,173 |
| | 7,134,204 | | | | 7,134,204 |
| | | | 179,498 | | 179,498 |
| 312,931,352 | | 3,875 | | | 344,051,230 |
| 17,846 | | | | | 6,838,479 |
| 2,182,159 | | | | | 2,182,159 |
| 81,391 | | | | | 81,391 |
| 510 | | 23 | | | 37,598 |
| 5,322 | | | | | 19,987 |
| 2,287,228 | | 23 | | | 9,159,614 |
| 554,830,233 | 7,466,830 | 5,029,092 | 281,090 | (24,451,750) | 2,175,940,279 |
| 2,159,361 | 13,939 | 18,800 | 1,566 | | 3,854,001 |
| 552,670,872 | 7,452,891 | 5,010,292 | 279,524 | (24,451,750) | 2,172,086,278 |
| (552,670,872) | (7,452,891) | (5,010,292) | (279,524) | 24,451,750 | (2,168,925,722) |
| | | | | | 3,160,556 |
| | | | | | 17,441,254 |
| $ | $ | $ | $ | $ | $ 20,601,810 |

NORTH CAROLINA DEPARTMENT OF STATE TREASURER
SCHEDULE OF INVESTMENTS BY TYPE, BY SEGMENT
INVESTMENT POOL
AT JUNE 30, 1993

| SECURITY TYPE | Short-term Investment Fund | Long-term Investment Fund | Equity Investment Fund |
|---|---|---|---|
| Repurchase Agreements | $ 351,000,000 | $ | $ |
| Certificates of Deposit | 125,236,000 | | |
| Treasury and Agency Securities | 4,188,981,855 | 5,744,817,726 | |
| Corporate Bonds | 10,000,000 | 5,270,391,057 | |
| International Bonds | | 664,694,995 | |
| Mortgage Backed Securities (GNMA's) | | 3,671,634,082 | |
| Long-term Certificates of Deposit | | 11,150,000 | |
| Equity Securities: | | | |
| Common Stock | | | 5,119,547,358 |
| Trust Funds | | | 1,159,906,569 |
| Mutual Funds | | | 5,000,000 |
| Real Estate Investments | | | |
| Venture Capital Investments | | | |
| Total Investments at Book | $4,675,217,855 | $15,362,687,860 | $6,284,453,927 |
| Percent of Total Book Value | 17.50% | 57.50% | 23.52% |
| Total Investments at Market | $4,922,729,869 | $17,912,891,223 | $8,419,927,733 |
| Percent of Total Market Value | 15.57% | 56.66% | 26.63% |

| Real Estate Investment Fund | Bond Proceeds Fund | Venture Capital Investment Fund | Total Book Value | % of Total | Market Value | % of Total |
|---|---|---|---|---|---|---|
| $ | $118,667,000 | $ | $ 469,667,000 | 1.76% | $ 469,667,000 | 1.49% |
| | | | 125,236,000 | 0.47 | 125,236,000 | 0.40 |
| | | | 9,933,799,581 | 37.18 | 11,570,113,636 | 36.62 |
| | | | 5,280,391,057 | 19.77 | 5,871,197,170 | 18.58 |
| | | | 664,694,995 | 2.49 | 772,717,147 | 2.45 |
| | | | 3,671,634,082 | 13.74 | 4,134,207,139 | 13.09 |
| | | | 11,150,000 | 0.04 | 11,150,000 | 0.03 |
| | | | 5,119,547,358 | 19.16 | 7,039,462,792 | 22.28 |
| | | | 1,159,906,569 | 4.34 | 1,375,393,682 | 4.35 |
| | | | 5,000,000 | 0.02 | 5,071,259 | 0.02 |
| 247,877,399 | | | 247,877,399 | 0.93 | 188,270,595 | 0.60 |
| | | 26,952,682 | 26,952,682 | 0.10 | 28,315,832 | 0.09 |
| $247,877,399 | $118,667,000 | $26,952,682 | $26,715,856,723 | 100.00% | | |
| 0.93% | 0.44% | 0.10% | 100.00% | | | |
| $188,270,595 | $118,667,000 | $28,315,832 | | | $31,590,802,252 | 100.00% |
| 0.60% | 0.38% | 0.09% | | | 100.00% | |

## NORTH CAROLINA DEPARTMENT OF STATE TREASURER
## SCHEDULE OF PARTICIPANTS' BALANCES BY TYPE, BY SEGMENT
## INVESTMENT POOL
## AT JUNE 30, 1993

| PARTICIPANT TYPE | Short-term Investment Fund | Liquid Asset Fund | Long-term Investment Fund |
|---|---|---|---|
| State Government: | | | |
| General Fund | $1,230,128,765 | $ | $ |
| Highway Fund | 771,008,717 | | |
| University Funds | 658,155,363 | | |
| Pension Trust Funds | 39,607,183 | | 15,376,133,995 |
| Other State Funds | 1,408,421,204 | | 414,023,873 |
| Total State Government | 4,107,321,232 | | 15,790,157,868 |
| Local Government | 213,739,267 | 2,605,574 | |
| Other Investment Funds | 490,308,587 | | |
| Transactions in Process | (48,650,661) | | |
| Total Participants' Balances | $4,762,718,425 | $2,605,574 | $15,790,157,868 |

## NORTH CAROLINA DEPARTMENT OF STATE TREASURER
## SCHEDULE OF PARTICIPANTS' DISTRIBUTED EARNINGS BY TYPE, BY SEGMENT
## INVESTMENT POOL
## AT JUNE 30, 1993

| PARTICIPANT TYPE | Short-term Investment Fund | Liquid Asset Fund | Long-term Investment Fund |
|---|---|---|---|
| State Government: | | | |
| General Fund | $ 74,330,080 | $ | $ |
| Highway Fund | 42,826,103 | | |
| University Funds | 38,745,580 | | |
| Pension Trust Funds | 5,898,187 | | 1,337,752,594 |
| Other State Funds | 54,317,260 | | 36,731,142 |
| Total State Government | 216,117,210 | | 1,374,483,736 |
| Local Government | 12,764,816 | 146,381 | |
| Other Investment Funds | 24,451,750 | | |
| Total Income Distributed | 253,333,776 | 146,381 | 1,374,483,736 |
| Change in Undistributed Income | 3,160,556 | | |
| Total Income | $256,494,332 | $146,381 | $1,374,483,736 |

| Equity Investment Fund | Real Estate Investment Fund | Bond Proceeds Fund | Venture Capital Investment Fund | Intrafund Eliminations | Total |
|---|---|---|---|---|---|
| $ | $ | $ | $ | $ | $ 1,230,128,765 |
| | | | | | 771,008,717 |
| | | | | | 658,155,363 |
| 6,575,430,751 | 251,068,976 | | 28,011,096 | | 22,270,252,001 |
| | | 118,679,335 | | | 1,941,124,412 |
| 6,575,430,751 | 251,068,976 | 118,679,335 | 28,011,096 | | 26,870,669,258 |
| | | | | | 216,344,841 |
| | | | | (490,308,587) | |
| | | | | | (48,650,661) |
| $6,575,430,751 | $251,068,976 | $118,679,335 | $28,011,096 | $(490,308,587) | $27,038,363,438 |

Schedule 5

| Equity Investment Fund | Real Estate Investment Fund | Bond Proceeds Fund | Venture Capital Investment Fund | Intrafund Eliminations | Total |
|---|---|---|---|---|---|
| $ | $ | $ | $ | $ | $ 74,330,080 |
| | | | | | 42,826,103 |
| | | | | | 38,745,580 |
| 552,670,872 | 7,452,891 | | 279,524 | | 1,904,054,068 |
| | | 5,010,292 | | | 96,058,694 |
| 552,670,872 | 7,452,891 | 5,010,292 | 279,524 | | 2,156,014,525 |
| | | | | | 12,911,197 |
| | | | | (24,451,750) | |
| 552,670,872 | 7,452,891 | 5,010,292 | 279,524 | (24,451,750) | 2,168,925,722 |
| | | | | | 3,160,556 |
| $552,670,872 | $7,452,891 | $5,010,292 | $279,524 | $(24,451,750) | $2,172,086,278 |

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# Statistical Tables

## TABLE OF CONTENTS


| | | Page |
|---|---|---|
| Table 1 | Comparative Summary of Trust Fund Investments | A-34 |
| Table 2 | Treasurer's Cash Balances | A-36 |
| Table 3 | Securities Held in Trust | A-38 |
| Table 4 | Treasurer's Investment Earnings for the General Fund, Highway Funds, Other Funds, and Pension Trust Funds | A-39 |
| Table 5 | General Obligation Bonds — Local Government — Referenda and Authorizations | A-40 |
| Table 6 | Installment and Lease Agreements Approved by the Local Government Commission | A-41 |
| Table 7 | North Carolina Clean Water Revolving Loans Approved by the Local Government Commission | A-42 |
| Table 8 | Summary of State and Local Government — Debt and Authorizations | A-42 |
| Table 9 | Annual Debt Requirements for State Bonds — Issued and Outstanding | A-43 |
| Table 10 | Revenue Bonds and Other Indebtedness of State Authorities and Institutions | A-44 |
| Table 11 | Valuation Balance Sheet — Showing the Assets and Liabilities of the Teachers' and State Employees' Retirement System of North Carolina | A-45 |
| Table 12 | Valuation Balance Sheet — Showing the Assets and Liabilities of the North Carolina Local Governmental Employees' Retirement System | A-46 |
| Table 13 | Valuation Balance Sheet — Showing the Assets and Liabilities of the Consolidated Judicial Retirement System of North Carolina | A-47 |
| Table 14 | Valuation Balance Sheet — Showing the Assets and Liabilities of the North Carolina Firemen's and Rescue Squad Workers' Pension Fund | A-48 |

## COMPARATIVE SUMMARY OF TRUST FUND INVESTMENTS

| | Short-term Investment Fund | | Long-term Investment Fund | |
|---|---|---|---|---|
| | Amount Invested* | Yield** | Amount Invested | Yield** |
| Retirement Trust Funds: | | | | |
| Teachers' and State Employees' Retirement System: | | | | |
| June 30, 1992 | $ 28,114,060 | 7.448 | $11,314,017,026 | 9.313 |
| June 30, 1993 | 30,391,508 | 6.573 | 12,312,517,707 | 9.067 |
| Local Governmental Employees' Retirement System: | | | | |
| June 30, 1992 | 7,596,596 | 7.448 | 2,621,129,977 | 9.313 |
| June 30, 1993 | 8,169,629 | 6.573 | 2,889,876,207 | 9.067 |
| North Carolina Firemen's Pension Fund: | | | | |
| June 30, 1992 | 685,964 | 7.448 | 54,893,205 | 9.313 |
| June 30, 1993 | 125,939 | 6.573 | 59,217,942 | 9.067 |
| Rescue Squad Workers' Pension Fund: | | | | |
| June 30, 1992 | 57,118 | 7.448 | 6,400,403 | 9.313 |
| June 30, 1993 | 17,025 | 6.573 | 6,901,849 | 9.067 |
| Consolidated Judicial Retirement System: | | | | |
| June 30, 1992 | 499,379 | 7.448 | 82,809,435 | 9.313 |
| June 30, 1993 | 501,993 | 6.573 | 91,031,286 | 9.067 |
| N.C. National Guard Pension Fund: | | | | |
| June 30, 1992 | 100,343 | 7.448 | 9,436,616 | 9.313 |
| June 30, 1993 | 199,878 | 6.573 | 10,574,717 | 9.067 |
| Legislative Retirement System: | | | | |
| June 30, 1992 | 240,582 | 7.448 | 5,324,739 | 9.313 |
| June 30, 1993 | 201,211 | 6.573 | 6,014,287 | 9.067 |
| **Total Retirement Trust Funds:** | | | | |
| June 30, 1992 | 37,294,042 | 7.448 | 14,094,011,401 | 9.313 |
| June 30, 1993 | 39,607,183 | 6.573 | 15,376,133,995 | 9.067 |
| Percent of Total | 0.2% | | 69.1% | |
| Other Trust Funds: | | | | |
| N. C. Teachers' and State Employees' Benefit Trust: | | | | |
| June 30, 1992 | 1,885,700 | 7.448 | 89,170,455 | 9.313 |
| June 30, 1993 | 3,388,834 | 6.573 | 96,397,146 | 9.067 |
| Disability Income Plan of North Carolina: | | | | |
| June 30, 1992 | 1,812,207 | 7.448 | 91,147,663 | 9.313 |
| June 30, 1993 | 1,798,714 | 6.573 | 102,349,415 | 9.067 |
| Registers of Deeds Supplemental Pension Fund: | | | | |
| June 30, 1992 | 428,390 | 7.448 | 2,283,100 | 9.313 |
| June 30, 1993 | 461,359 | 6.573 | 2,796,123 | 9.067 |
| State Treasurer's Escheat Fund: | | | | |
| June 30, 1992 | 9,369,718 | 7.448 | 83,803,933 | 9.313 |
| June 30, 1993 | 9,774,103 | 6.573 | 99,531,259 | 9.067 |
| Public Education Trust Fund:*** | | | | |
| June 30, 1992 | 17,651,984 | 7.448 | 24,128,891 | 9.313 |
| June 30, 1993 | 17,383,078 | 6.573 | 26,416,179 | 9.067 |
| State Property Fire Insurance Fund: | | | | |
| June 30, 1992 | 21,262,722 | 7.448 | 26,957,955 | 9.313 |
| June 30, 1993 | 15,324,344 | 6.573 | 12,882,518 | 9.067 |
| UNC — Insured Student Loan Program: | | | | |
| June 30, 1992 | 14,601,820 | 7.448 | 15,715,000 | 9.313 |
| June 30, 1993 | 23,104,763 | 6.573 | 12,786,580 | 9.067 |
| Wildlife Endowment Fund: | | | | |
| June 30, 1992 | 19,523 | 7.448 | 22,702,407 | 9.313 |
| June 30, 1993 | 1,081,892 | 6.573 | 25,142,575 | 9.067 |
| Retirees' Health Premium Fund: | | | | |
| June 30, 1992 | 0 | 0 | 32,629,025 | 9.313 |
| June 30, 1993 | 0 | 0 | 35,722,079 | 9.067 |
| Total Other Trust Funds: | | | | |
| June 30, 1992 | 67,032,064 | 7.448 | 388,538,429 | 9.313 |
| June 30, 1993 | 72,317,087 | 6.573 | 414,023,874 | 9.067 |
| Grand Total All Trust Funds: | | | | |
| June 30, 1992 | $104,326,106 | 7.448 | $14,482,549,830 | 9.313 |
| June 30, 1993 | 111,924,270 | 6.573 | 15,790,157,869 | 9.067 |

*Includes Float on Outstanding Unpaid Warrants.
**Represents the average yield year-to-date.
***The moneys in the Long-term Investment Fund is limited to moneys belonging to the Public School Insurance Fund.
Note: The annualized total return for the Real Estate Investment Fund at June 30, 1993, was 2.768%.

## For Years Ending June 30, 1992 — June 30, 1993

| Real Estate Investment Fund | | Equity Investment Fund | | Venture Capital Investment Fund | | Total | |
|---|---|---|---|---|---|---|---|
| Amount Invested | Yield** | Amount Invested | Yield** | Amount Invested | Yield** | Amount Invested* | Yield** |
| $190,829,735 | 3.730 | $4,674,405,067 | 7.640 | $22,264,520 | 0.267 | $16,229,630,408 | 8.755 |
| 201,172,095 | 3.088 | 5,262,751,324 | 9.016 | 22,488,928 | 0.998 | 17,829,321,562 | 8.970 |
| 42,267,976 | 3.730 | 1,081,870,624 | 7.640 | 5,150,844 | 0.267 | 3,758,016,017 | 8.757 |
| 47,056,299 | 3.088 | 1,240,014,796 | 9.016 | 5,202,773 | 0.998 | 4,190,319,704 | 8,970 |
| 947,400 | 3.730 | 22,028,482 | 7.640 | 102,531 | 0.267 | 78,657,582 | 8.749 |
| 976,868 | 3.088 | 24,160,552 | 9.016 | 103,565 | 0.998 | 84,584,866 | 8.968 |
| 111,488 | 3.730 | 2,651,675 | 7.640 | 12,560 | 0.267 | 9,233,244 | 8.738 |
| 114,953 | 3.088 | 2,900,334 | 9.016 | 12,687 | 0.998 | 9,946,848 | 8.969 |
| 1,307,739 | 3.730 | 34,158,715 | 7.640 | 162,859 | 0.267 | 118,938,127 | 8.756 |
| 1,478,441 | 3.088 | 38,267,599 | 9.016 | 164,501 | 0.998 | 131,443,820 | 8.965 |
| 94,688 | 3.730 | 3,865,402 | 7.640 | 18,210 | 0.267 | 13,515,259 | 8.773 |
| 171,853 | 3.088 | 4,696,528 | 9.016 | 18,394 | 0.998 | 15,661,370 | 8.952 |
| 57,059 | 3.730 | 2,179,914 | 7.640 | 20,048 | 0.267 | 7,822,342 | 8.744 |
| 98,467 | 3.088 | 2,639,618 | 9.016 | 20,248 | 0.998 | 8,973,831 | 8.918 |
| 235,616,085 | 3.730 | 5,821,159,879 | 7.640 | 27,731,572 | 0.267 | 20,215,812,979 | 8.756 |
| 251,068,976 | 3.088 | 6,575,430,751 | 9.016 | 28,011,096 | 0.998 | 22,270,252,001 | 8.970 |
| 1.1% | | 29.5% | | 0.1% | | 100.0% | |
| | | | | | | 91,056,155 | 9.176 |
| | | | | | | 99,785,980 | 9.020 |
| | | | | | | 92,959,870 | 9.277 |
| | | | | | | 104,148,129 | 9.022 |
| | | | | | | 2,711,490 | 9.100 |
| | | | | | | 3,257,482 | 8.800 |
| | | | | | | 93,173,651 | 9.180 |
| | | | | | | 109,305,362 | 8.907 |
| | | | | | | 41,780,875 | 8.495 |
| | | | | | | 43,799,257 | 7.989 |
| | | | | | | 48,220,677 | 8.548 |
| | | | | | | 28,206,862 | 7.837 |
| | | | | | | 30,316,820 | 8.414 |
| | | | | | | 35,891,343 | 7.662 |
| | | | | | | 22,721,930 | 9.311 |
| | | | | | | 26,224,467 | 9.030 |
| | | | | | | 32,629,025 | 9.313 |
| | | | | | | 35,722,079 | 9.067 |
| 0 | | 0 | | 0 | | 455,570,493 | 9.026 |
| 0 | | 0 | | 0 | | 486,340,961 | 8.696 |
| $235,616,085 | 3.730 | $5,821,159,879 | 7.640 | $27,731,572 | 0.267 | $20,671,383,472 | 8.762 |
| $251,068,976 | 3.088 | $6,575,430,751 | 9.016 | $28,011,096 | 0.998 | $22,756,592,962 | 8.964 |

# TREASURER'S CASH BALANCES
## JUNE 30, 1993

| | |
|---|---|
| **CLEARING ACCOUNTS** | |
| Raleigh, Branch Banking & Trust Co. | $ 4,061,580 |
| Raleigh, Central Carolina Bank & Trust Co. | 2,799,930 |
| Raleigh, Centura Bank | 1,978,356 |
| Raleigh, First Citizens Bank & Trust Co. | 7,649,041 |
| Raleigh, First Union National Bank of N.C. | 8,852,790 |
| Raleigh, NationsBank of N.C. | 15,235,444 |
| Unemployment Clearing Account | 165,191 |
| Raleigh, Southern National Bank of N.C. | 2,799,046 |
| Raleigh, United Carolina Bank | 2,395,947 |
| Raleigh, Wachovia Bank of N. C. | 18,620,555 |
| TOTAL CLEARING ACCOUNTS | $64,557,880 |
| **AGENCY COLLECTION ACCOUNTS** | |
| ASHEBORO | |
| First National Bank & Trust Co. | $ 85,034 |
| ASHEVILLE | |
| Clyde Savings & Loan | 9,714 |
| BATH | |
| Southern Bank & Trust Co. | 3,442 |
| BURNSVILLE | |
| First Commercial Bank | 33,098 |
| CAMDEN | |
| Bank of Currituck | 33,123 |
| COLUMBIA | |
| The East Carolina Bank | 52,162 |
| CONCORD | |
| Security Bank | 9,386 |
| CRESWELL | |
| The East Carolina Bank | 9,288 |
| DURHAM | |
| Mechanics & Farmers Bank | 49,763 |
| The Village Bank | 33,660 |
| EDENTON | |
| Southern Bank & Trust Co. | 7,562 |
| FAIRFIELD | |
| The East Carolina Bank | 12,207 |
| FAYETTEVILLE | |
| United National Bank | 66,151 |
| GATESVILLE | |
| Southern Bank & Trust Co. | 33,401 |
| GREENSBORO | |
| Greensboro National Bank | 89,066 |
| HIGH POINT | |
| High Point Bank & Trust | 19,064 |
| LAURINBURG | |
| First Scotland Bank | 19,788 |
| LENOIR | |
| Bank of Granite | 19,484 |

| | |
|---|---|
| **LEWISTON** | |
| Southern Bank & Trust Co. | 4,106 |
| **LEXINGTON** | |
| Lexington State Bank | 38,476 |
| **MANTEO** | |
| The East Carolina Bank | 25,979 |
| **MORGANTON** | |
| SNB Savings Bank | 33,593 |
| **MOYOCK** | |
| Bank of Currituck | 33,676 |
| **NAGS HEAD** | |
| The East Carolina Bank | 7,364 |
| **NEWLAND** | |
| Avery County Bank | 7,849 |
| **NORTH WILKESBORO** | |
| Yadkin Valley Bank & Trust Co. | 33,769 |
| **OCRACOKE** | |
| The East Carolina Bank | 47,660 |
| **PEMBROKE** | |
| Lumbee Bank | 55,354 |
| **PLYMOUTH** | |
| Southern Bank & Trust Co. | 19,323 |
| **REIDSVILLE** | |
| First National Bank of Reidsville | 19,060 |
| **ROBBINS** | |
| First Bank | 27,327 |
| **SALISBURY** | |
| Security Bank & Trust Co. | 25,265 |
| **SANFORD** | |
| Mid-South Bank & Trust Co. | 19,342 |
| **SEVEN SPRINGS** | |
| Southern Bank & Trust Co. | 9,833 |
| **SWAN QUARTER** | |
| The East Carolina Bank | 54,201 |
| **TARBORO** | |
| Unity Bank | 22,124 |
| **TROY** | |
| The Fidelity Bank | 23,451 |
| First Bank | 66,915 |
| **WANCHESE** | |
| The East Carolina Bank | 9,538 |
| **WEST END** | |
| First Bank | 4,839 |
| **WINDSOR** | |
| Southern Bank & Trust Co. | 33,285 |
| **WINTON** | |
| Southern Bank & Trust Co. | 33,524 |
| **TOTAL AGENCY COLLECTION ACCOUNTS** | $ 1,241,246 |
| | |
| Treasurer's Cash Balances before Net Warrant Clearings and Deposits in Transit | $65,799,126 |
| Net Warrant Clearings and Deposits in Transit | (13,420,382) |
| Treasurer's Cash Balances | $52,378,744 |

Table 3

# SECURITIES HELD IN TRUST
## JUNE 30, 1993

| Description | Par Value |
|---|---|
| Securities Held in Safekeeping: | |
| Atlantic & East Carolina Railroad Company | |
| Deposit to Insure Rental Agreement | $ 50,000 |
| Department of Public Instruction Literary Loan Notes | 1,893,376 |
| Securities Held as Good Faith Deposits: | |
| North Carolina Department of Revenue | 1,769,410 |
| North Carolina Department of Motor Vehicles | 60,000 |
| Securities Held as Custodian: | |
| In Treasurer's Vault: | |
| Long-term Investment Fund* | 211,583,854 |
| Short-term Investment Fund** | 125,236,000 |
| By Contractual Custodian Agreement: | |
| Short-term Investment Fund | 4,600,265 |
| Long-term Investment Fund | 16,477,927,707 |
| Equity Investment Fund | 6,284,453,927 |
| Real Estate Investment Fund | 247,877,399 |
| Venture Capital Investment Fund | 26,952,682 |
| Bond Proceeds Fund | 118,667,000 |
| Securities Owned by the State: | |
| North Carolina Railroad Company | |
| (3,208,573 shares common stock) | 1,604,286 |
| Securities Held by Escrow Agents to Secure Public Deposits: | 2,023,878,576 |
| **Total** | $25,526,554,482 |

*Corporate Private Placements and Long-term CD's
**Certificates of Deposit and Saving Certificates

Table 4

# TREASURER'S INVESTMENT EARNINGS FOR THE GENERAL FUND, HIGHWAY FUNDS, OTHER FUNDS, AND PENSION TRUST FUNDS 1942 — 1993*

## (Accrual Basis)

| | General Fund | Highway Funds | Pension Trust Funds ** | All Other Funds *** | Total All Funds |
|---|---|---|---|---|---|
| | | | Created 7/1/41 | | |
| 1942 | $ | $ | $ 54,000 | $ | $ 54,000 |
| 1943 | | | 216,000 | | 216,000 |
| 1944 | | | 255,000 | | 255,000 |
| 1945 | | | 346,000 | | 346,000 |
| 1946 | | | 1,173,000 | | 1,173,000 |
| 1947 | | | 665,000 | | 665,000 |
| 1948 | | | 807,000 | | 807,000 |
| 1949 | 355,719 | | 1,158,000 | | 1,513,719 |
| 1950 | 1,565,365 | | 1,572,000 | | 3,137,365 |
| 1951 | 3,182,816 | | 1,948,000 | | 5,130,816 |
| SUBTOTAL | 5,103,900 | | 8,194,000 | | 13,297,900 |
| 1952 | 3,711,531 | | 3,013,000 | | 6,724,531 |
| 1953 | 3,383,701 | | 3,482,000 | | 6,865,701 |
| 1954 | 2,800,432 | | 4,338,000 | | 7,138,432 |
| 1955 | 2,069,388 | | 5,674,000 | | 7,743,388 |
| 1956 | 2,074,701 | | 8,605,000 | | 10,679,701 |
| 1957 | 3,124,661 | | 4,445,000 | | 7,569,661 |
| 1958 | 4,064,535 | | 7,516,000 | | 11,580,535 |
| 1959 | 3,361,306 | | 8,620,000 | | 11,981,306 |
| 1960 | 5,114,917 | | 10,634,000 | | 15,748,917 |
| 1961 | 6,906,906 | | 12,141,000 | | 19,047,906 |
| SUBTOTAL | 36,612,078 | | 68,468,000 | | 105,080,078 |
| 1962 | 4,802,527 | 1,907,373 | 13,701,000 | | 20,410,900 |
| 1963 | 5,161,899 | 1,733,738 | 16,281,000 | | 23,176,637 |
| 1964 | 6,003,139 | 1,968,853 | 18,388,000 | | 26,359,992 |
| 1965 | 7,907,545 | 3,151,909 | 20,354,000 | | 31,413,454 |
| 1966 | 10,322,713 | 3,708,759 | 23,324,000 | | 37,355,472 |
| 1967 | 12,337,612 | 5,841,357 | 28,758,000 | | 46,936,969 |
| 1968 | 19,266,180 | 9,420,810 | 35,265,000 | | 63,951,990 |
| 1969 | 20,284,196 | 10,749,092 | 42,465,000 | | 73,498,288 |
| 1970 | 22,624,169 | 13,201,633 | 53,136,000 | | 88,961,802 |
| 1971 | 29,369,118 | 16,037,808 | 67,489,000 | | 112,895,926 |
| SUBTOTAL | 138,079,098 | 67,721,332 | 319,161,000 | | 524,961,430 |
| 1972 | 24,325,581 | 12,423,644 | 80,736,000 | | 117,485,225 |
| 1973 | 26,816,266 | 11,054,759 | 93,524,000 | | 131,395,025 |
| 1974 | 53,574,503 | 18,535,282 | 105,682,000 | | 177,791,785 |
| 1975 | 73,317,870 | 23,923,734 | 133,334,000 | | 230,575,604 |
| 1976 | 48,641,750 | 15,903,056 | 161,629,000 | | 226,173,806 |
| 1977 | 43,129,022 | 11,901,171 | 189,494,000 | | 244,524,193 |
| 1978 | 44,087,283 | 9,927,820 | 214,756,000 | | 268,771,103 |
| 1979 | 56,224,976 | 21,627,907 | 287,833,000 | | 365,685,883 |
| 1980 | 93,499,189 | 19,761,250 | 367,269,000 | | 480,529,439 |
| 1981 | 102,900,589 | 13,224,698 | 413,352,149 | 40,104,470 | 569,581,906 |
| SUBTOTAL | 566,517,029 | 158,283,321 | 2,047,609,149 | 40,104,470 | 2,812,513,969 |
| 1982 | 115,671,991 | 21,107,338 | 510,466,462 | 48,208,056 | 695,453,847 |
| 1983 | 86,379,248 | 28,546,192 | 641,685,599 | 52,748,873 | 809,359,912 |
| 1984 | 98,885,947 | 30,160,751 | 692,538,245 | 64,072,603 | 885,657,546 |
| 1985 | 133,076,748 | 33,344,149 | 817,803,953 | 69,340,765 | 1,053,565,615 |
| 1986 | 151,346,427 | 26,485,263 | 1,025,760,949 | 74,941,795 | 1,278,534,434 |
| 1987 | 139,426,325 | 26,185,560 | 1,141,505,184 | 75,845,768 | 1,382,962,837 |
| 1988 | 164,540,208 | 33,925,222 | 1,418,274,104 | 67,069,014 | 1,683,808,548 |
| 1989 | 139,553,252 | 30,558,023 | 1,308,640,295 | 75,739,068 | 1,554,490,638 |
| 1990 | 115,933,013 | 34,002,597 | 1,429,948,919 | 114,440,211 | 1,694,324,740 |
| 1991 | 75,154,836 | 42,290,145 | 1,541,163,075 | 125,137,403 | 1,783,745,459 |
| SUBTOTAL | 1,219,967,995 | 306,605,240 | 10,527,786,785 | 767,543,556 | 12,821,903,576 |
| 1992 | 56,898,765 | 42,659,680 | 1,694,271,198 | 135,468,030 | 1,929,297,673 |
| 1993 | 77,910,893 | 42,826,103 | 1,904,054,068 | 147,295,214 | 2,172,086,278 |
| | $2,101,089,758 | $618,095,676 | $16,569,544,200 | $1,090,411,270 | $20,379,140,904 |

*Income is shown on a fiscal year basis, July 1 — June 30

**Income is shown on a calendar year basis, January 1 — December 31 from 1956 to 1980
Income prior to 1956 and after 1980 is shown on a fiscal year basis (the 1956 year includes 18 months of income)

***Total income for all other funds before the establishment of the Investment Pool on July 1, 1980, is not available

# GENERAL OBLIGATION BONDS
# LOCAL GOVERNMENT
# REFERENDA AND AUTHORIZATIONS
# FISCAL YEAR JULY 1, 1992 THROUGH JUNE 30, 1993

| | Propositions | | | Bonds | | |
|---|---|---|---|---|---|---|
| | Proposed | Approved | % Approved | Proposed | Approved | % Approved |
| **COUNTIES:** | | | | | | |
| **Voted Propositions:** | | | | | | |
| Schools | 8 | 7 | 87.50% | $418,117,000 | $403,117,000 | 96.41% |
| Community Colleges | 5 | 4 | 80.00 | 51,411,000 | 50,211,000 | 97.67 |
| Public Building | 1 | 0 | 0.00 | 1,000,000 | 0 | 0.00 |
| Detention Facility | 1 | 1 | 100.00 | 10,000,000 | 10,000,000 | 100.00 |
| Parks and Recreation | 1 | 1 | 100.00 | 10,000,000 | 10,000,000 | 100.00 |
| Libraries | 2 | 2 | 100.00 | 21,400,000 | 21,400,000 | 100.00 |
| Industrial Park | 1 | 0 | 0.00 | 1,650,000 | 0 | 0.00 |
| Water | 1 | 1 | 100.00 | 3,730,000 | 3,730,000 | 100.00 |
| | 20 | 16 | 80.00% | $517,308,000 | $498,458,000 | 96.36% |
| **Nonvoted Propositions:** | | | | | | |
| General Obligation Refundings | 16 | 16 | 100.00% | $542,075,000 | $542,075,000 | 100.00% |
| School | 1 | 1 | 100.00 | 1,750,000 | 1,750,000 | 100.00 |
| Public Building | 1 | 1 | 100.00 | 450,000 | 450,000 | 100.00 |
| Water | 3 | 3 | 100.00 | 3,880,000 | 3,880,000 | 100.00 |
| Sanitary Sewer | 1 | 1 | 100.00 | 4,000,000 | 4,000,000 | 100.00 |
| | 22 | 22 | 100.00% | $552,155,000 | $552,155,000 | 100.00% |
| **DISTRICTS:** | | | | | | |
| **Voted Propositions:** | | | | | | |
| Water | 9 | 7 | 77.78% | $ 34,970,000 | $ 16,720,000 | 47.81% |
| Sanitary Sewer | 3 | 2 | 66.67 | 31,600,000 | 15,200,000 | 48.10 |
| | 12 | 9 | 75.00% | $ 66,570,000 | $ 31,920,000 | 47.95% |
| **Nonvoted Propositions:** | | | | | | |
| General Obligation Refundings | 3 | 3 | 100.00% | $ 31,275,000 | $ 31,275,000 | 100.00% |

Table 5 (continued)

| | Propositions Proposed | Propositions Approved | Propositions % Approved | Bonds Proposed | Bonds Approved | Bonds % Approved |
|---|---|---|---|---|---|---|
| **MUNICIPALITIES:** | | | | | | |
| **Voted Propositions:** | | | | | | |
| Sanitary Sewer/Storm Sewer | 14 | 14 | 100.00 % | $ 108,768,000 | $ 108,768,000 | 100.00 % |
| Water | 10 | 10 | 100.00 | 59,025,000 | 59,025,000 | 100.00 |
| Parks and Recreation | 2 | 2 | 100.00 | 3,900,000 | 3,900,000 | 100.00 |
| Streets & Sidewalks | 3 | 3 | 100.00 | 16,980,000 | 16,980,000 | 100.00 |
| Public Buildings | 2 | 2 | 100.00 | 4,500,000 | 4,500,000 | 100.00 |
| Housing | 2 | 1 | 50.00 | 1,500,000 | 1,000,000 | 66.67 |
| Library | 1 | 1 | 100.00 | 1,500,000 | 1,500,000 | 100.00 |
| Coliseums/Convention Centers | 2 | 0 | 0.00 | 99,000,000 | 0 | 0.00 |
| Fire Fighting Facilities | 1 | 1 | 100.00 | 1,100,000 | 1,100,000 | 100.00 |
| Public Vehicles | 1 | 1 | 100.00 | 2,500,000 | 2,500,000 | 100.00 |
| Museum | 1 | 0 | 0.00 | 1,500,000 | 0 | 0.00 |
| | 39 | 35 | 89.74 % | $ 300,273,000 | $ 199,273,000 | 66.36 % |
| **Nonvoted Propositions:** | | | | | | |
| General Obligation Refundings | 24 | 24 | 100.00 % | $ 866,735,000 | $ 866,735,000 | 100.00 % |
| Sanitary Sewer/Storm Sewer | 2 | 2 | 100.00 | 1,100,000 | 1,100,000 | 100.00 |
| Public Building | 1 | 1 | 100.00 | 300,000 | 300,000 | 100.00 |
| Public Improvement | 1 | 1 | 100.00 | 920,000 | 920,000 | 100.00 |
| Law Enforcement Facility | 1 | 1 | 100.00 | 500,000 | 500,000 | 100.00 |
| Streets & Sidewalks | 3 | 3 | 100.00 | 3,180,000 | 3,180,000 | 100.00 |
| Water | 1 | 1 | 100.00 | 500,000 | 500,000 | 100.00 |
| | 33 | 33 | 100.00 % | $ 873,235,000 | $ 873,235,000 | 100.00 % |
| **Total Voted** | 71 | 60 | 84.51 % | $ 884,151,000 | $729,651,000 | 82.53 % |
| **Total Nonvoted** | 58 | 58 | 100.00 % | $1,456,665,000 | $1,456,665,000 | 100.00 % |
| **Grand Total** | 129 | 118 | 91.47 % | $2,340,816,000 | $2,186,316,000 | 93.40 % |

Table 6

## INSTALLMENT AND LEASE AGREEMENTS
## APPROVED BY THE LOCAL GOVERNMENT COMMISSION
## FISCAL YEARS ENDED JUNE 30, 1991, 1992, AND 1993
## (In Millions of Dollars)

| | FY 1992 - 93 No. | FY 1992 - 93 Amt. | FY 1991 - 92 No. | FY 1991 - 92 Amt. | FY 1990 - 91 No. | FY 1990 - 91 Amt. |
|---|---|---|---|---|---|---|
| Counties/Authorities/Districts | 38 | $128.7 | 29 | $107.8 | 25 | $136.2 |
| Municipalities | 53 | 101.5 | 31 | 89.4 | 22 | 231.8 |
| Total | 91 | $230.2 | 60 | $197.2 | 47 | $368.0 |

Table 7

## NORTH CAROLINA CLEAN WATER REVOLVING LOANS APPROVED BY THE LOCAL GOVERNMENT COMMISSION FISCAL YEARS ENDED JUNE 30, 1991, 1992, AND 1993
(In Millions of Dollars)

| | FY 1992 - 93 | | FY 1991 - 92 | | FY 1990 - 91 | |
|---|---|---|---|---|---|---|
| | No. | Amt. | No. | Amt. | No. | Amt. |
| Counties/Districts/Authorities | 0 | $ 0.0 | 5 | $12.0 | 1 | $ 4.5 |
| Municipalities | 7 | 13.5 | 18 | 60.3 | 16 | 49.5 |
| Total | 7 | $13.5 | 23 | $72.3 | 17 | $54.0 |

Table 8

## SUMMARY OF STATE AND LOCAL GOVERNMENT DEBT AND AUTHORIZATIONS AT JUNE 30, 1993

| | General Obligations | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Bonds | Literary Fund Loans | Bond Anticipation Notes | Total | Revenue Bonds | Industrial Revenue Bonds | Total Indebtedness | Authorized and Unissued Bonds |
| State | $ 580,733,903 | $ 0 | $ 0 | $ 580,733,903 | $ 0 | $ 0 | $ 580,733,903 | $ 87,500,000 |
| State Authorities and Institutions | 0 | 0 | 0 | 0 | 9,519,136,722 | 20,155,000 | 9,539,291,722 | 0 |
| Totals | $ 580,733,903 | $ 0 | $ 0 | $ 580,733,903 | $ 9,519,136,722 | $ 20,155,000 | $10,120,025,625 | $ 87,500,000 |
| Counties | $2,399,107,155 | $703,656 | $ 4,000,000 | $2,403,810,811 | $ 620,097,058 | $ 0 | $ 3,023,907,869 | $ 918,948,000 |
| Municipalities | 1,948,439,984 | 0 | 10,382,000 | 1,958,821,984 | 777,374,969 | 0 | 2,736,196,953 | 1,045,618,800 |
| Districts | 174,218,438 | 0 | 6,394,000 | 180,612,438 | 86,694,794 | 0 | 267,307,232 | 63,174,000 |
| Authorities | 0 | 0 | 0 | 0 | 569,545,204 | 1,977,250,200 | 2,546,795,404 | 0 |
| Total | $4,521,765,577 | $703,656 | $20,776,000 | $4,543,245,233 | $ 2,053,712,025 | $1,977,250,200 | $ 8,574,207,458 | $2,027,740,800 |
| Grand Totals | $5,102,499,480 | $703,656 | $20,776,000 | $5,123,979,136 | $11,572,848,747 | $1,997,405,200 | $18,694,233,083 | $2,115,240,800 |

Note: Outstanding bonded indebtedness above does not include the following bonded indebtedness for which funds have been escrowed from advance refunding proceeds or other sources to cover the debt:

| | General Obligation Bonds | Revenue Bonds | Total |
|---|---|---|---|
| State | $ 60,000,000 | $ 0 | $ 60,000,000 |
| Counties | 672,795,000 | 71,822,155 | 744,617,155 |
| Cities | 636,133,500 | 104,865,000 | 740,998,500 |
| Districts | 52,299,000 | 58,065,000 | 110,364,000 |
| Authorities | 0 | 216,660,222 | 216,660,222 |
| | $1,421,227,500 | $451,412,377 | $1,872,639,877 |

# ANNUAL DEBT REQUIREMENTS FOR STATE BONDS ISSUED AND OUTSTANDING[1] AT JUNE 30, 1993

| | GENERAL | | HIGHWAY | | TOTAL | |
|---|---|---|---|---|---|---|
| | Existing Debt | | Existing Debt | | Existing Debt | |
| Fiscal Year | Principal | Principal & Interest | Principal | Principal & Interest | Principal | Principal & Interest |
| 1993-94 | $ 55,037,897.30 | $ 83,446,057.50 | $32,985,000 | $37,359,875 | $ 88,022,897.30 | $120,805,932.50 |
| 1994-95 | 55,070,323.80 | 80,456,282.50 | 25,090,000 | 27,664,550 | 80,160,323.80 | 108,120,832.50 |
| 1995-96 | 55,058,308.40 | 77,418,832.50 | 24,120,000 | 25,169,040 | 79,178,308.40 | 102,587,872.50 |
| 1996-97 | 55,022,114.30 | 74,311,645.00 | 4,860,000 | 5,010,660 | 59,882,114.30 | 79,322,305.00 |
| 1997-98 | 54,914,916.30 | 71,215,855.00 | | | 54,914,916.30 | 71,215,855.00 |
| 1998-99 | 53,597,302.30 | 66,766,025.00 | | | 53,597,302.30 | 66,766,025.00 |
| 1999-00 | 50,309,115.30 | 60,277,905.00 | | | 50,309,115.30 | 60,277,905.00 |
| 2000-01 | 26,664,771.60 | 34,306,100.00 | | | 26,664,771.60 | 34,306,100.00 |
| 2001-02 | 24,104,167.30 | 30,251,600.00 | | | 24,104,167.30 | 30,251,600.00 |
| 2002-03 | 9,552,158.00 | 14,370,000.00 | | | 9,552,158.00 | 14,370,000.00 |
| 2003-04 | 9,498,448.80 | 13,833,200.00 | | | 9,498,448.80 | 13,833,200.00 |
| 2004-05 | 9,452,952.60 | 13,296,400.00 | | | 9,452,952.60 | 13,296,400.00 |
| 2005-06 | 9,405,431.80 | 12,759,600.00 | | | 9,405,431.80 | 12,759,600.00 |
| 2006-07 | 9,365,722.90 | 12,222,800.00 | | | 9,365,722.90 | 12,222,800.00 |
| 2007-08 | 9,330,014.55 | 11,682,200.00 | | | 9,330,014.55 | 11,682,200.00 |
| 2008-09 | 7,295,257.30 | 9,136,600.00 | | | 7,295,257.30 | 9,136,600.00 |
| | $493,678,902.55 | $665,751,102.50 | $87,055,000 | $95,204,125 | $580,733,902.55 | $760,955,227.50 |

[1]Refunded debt of $60,000,000 is not included since sufficient moneys have been placed with an escrow agent to pay all principal and interest and any premium on the bonds refunded to and including their respective maturities or dates of redemption.

## REVENUE BONDS AND OTHER INDEBTEDNESS OF STATE AUTHORITIES AND INSTITUTIONS AT JUNE 30, 1993

| | |
|---|---|
| Appalachian State University | $ 33,528,000 |
| East Carolina University | 7,973,552 |
| Elizabeth City State University | 7,003,000 |
| Fayetteville State University | 3,580,990 |
| North Carolina A & T State University | 13,185,000 |
| North Carolina Central University | 3,009,000 |
| North Carolina School of the Arts | 1,685,000 |
| North Carolina State University at Raleigh | 46,288,223 |
| Pembroke State University | 525,000 |
| University of North Carolina at Asheville | 13,515,000 |
| University of North Carolina at Chapel Hill | 228,762,675 |
| University of North Carolina at Charlotte | 34,929,974 |
| University of North Carolina at Greensboro | 40,208,000 |
| University of North Carolina at Wilmington | 25,206,938 |
| Western Carolina University | 7,597,276 |
| Winston-Salem State University | 9,630,000 |
| North Carolina Educational Facilities Finance Agency | 322,807,120[1] |
| North Carolina Housing Finance Agency | 836,649,662[2] |
| North Carolina Industrial Facilities and Pollution Control Financing Authority | 20,155,000[3] |
| North Carolina Medical Care Commission | 1,770,065,251[4] |
| North Carolina State Ports Authority | 5,815,000 |
| North Carolina Eastern Municipal Power Agency | 3,512,775,061 |
| North Carolina Municipal Power Agency No. 1 | 2,594,182,000 |
| North Carolina Battleship Commission | 215,000 |
| **Total** | **$9,539,291,722** |

[1]This indebtedness is created pursuant to authority granted to the North Carolina Educational Facilities Finance Agency to issue revenue bonds for institutions of higher education as authorized by G.S. Chapter 115E.

[2]This indebtedness is created pursuant to authority granted to the North Carolina Housing Finance Agency to issue revenue bonds for housing for families of lower and moderate income as authorized by G.S. 122A-8.

[3]This indebtedness is created pursuant to authority granted to the North Carolina Industrial Facilities and Pollution Control Financing Authority to issue revenue bonds for industrial facilities as authorized by G.S. Chapter 159D.

[4]This indebtedness is created pursuant to authority granted to the North Carolina Medical Care Commission to issue revenue bonds for health care facilities as authorized by G.S. 131A.

Source: Chief fiscal officer of each authority or institution.

# VALUATION BALANCE SHEET
# SHOWING THE ASSETS AND LIABILITIES OF THE
# TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA

| ASSETS | December 31, 1992 | December 31, 1991 |
|---|---|---|
| Current assets: | | |
| Annuity Savings Fund | $ 3,687,423,264 | $ 3,400,947,293 |
| Pension Accumulation Fund | 13,352,484,721 | 12,155,310,993 |
| **Total Current Assets** | **$17,039,907,985** | **$15,556,258,286** |
| Future member contributions to Annuity Savings Fund | $ 4,044,887,874 | $ 3,979,023,576 |
| Prospective contributions to Pension Accumulation Fund: | | |
| Normal contributions | $ 3,505,569,491 | $ 3,302,589,568 |
| Accrued liability contributions | 568,098,781 | 958,161,182 |
| Undistributed gain contributions | 592,303,706 | 297,929,878 |
| **Total Prospective Contributions** | **$ 4,665,971,978** | **$ 4,558,680,628** |
| **Total Assets** | **$25,750,767,837** | **$24,093,962,490** |

| LIABILITIES | December 31, 1992 | December 31, 1991 |
|---|---|---|
| Annuity Savings Fund: | | |
| Past member contributions | $ 3,687,423,264 | $ 3,400,947,293 |
| Future member contributions | 4,044,887,874 | 3,979,023,576 |
| **Total Contributions to Annuity Savings Fund** | **$ 7,732,311,138** | **$ 7,379,970,869** |
| Pension Accumulation Fund: | | |
| Benefits currently in payment | $ 6,411,603,211 | $ 5,673,122,647 |
| Benefits to be paid to current active members | 10,867,953,398 | 10,441,798,577 |
| Reserve for increases in retirement allowances effective July 1, 1993 (July 1, 1992, for December 31, 1991, figures) | 146,596,384 | 301,140,519 |
| Reserve from undistributed gains | 592,303,706 | 297,929,878 |
| **Total Benefits Payable from Pension Accumulation Fund** | **$18,018,456,699** | **$16,713,991,621** |
| **Total Liabilities** | **$25,750,767,837** | **$24,093,962,490** |

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Table 12

# VALUATION BALANCE SHEET
# SHOWING THE ASSETS AND LIABILITIES OF THE
# NORTH CAROLINA LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

| ASSETS | December 31, 1992 | December 31, 1991 |
|---|---|---|
| Current assets: | | |
| Annuity Savings Fund | $ 978,762,952 | $ 878,212,013 |
| Pension Accumulation Fund | 3,008,005,621 | 2,698,760,741 |
| Total Current Assets | $3,986,768,573 | $3,576,972,754 |
| Future member contributions to Annuity Savings Fund | $1,375,321,110 | $1,292,671,614 |
| Prospective contributions to Pension Accumulation Fund: | | |
| Normal contributions | $ 962,506,571 | $ 925,103,193 |
| Accrued liability contributions | 85,113,776 | 90,169,466 |
| Undistributed gain contributions | 79,027,538 | 53,802,952 |
| Total Prospective Contributions | $1,126,647,885 | $1,069,075,611 |
| Total Assets | $6,488,737,568 | $5,938,719,979 |
| **LIABILITIES** | | |
| Annuity Savings Fund: | | |
| Past member contributions | $ 978,762,952 | $ 878,212,013 |
| Future member contributions | 1,375,321,110 | 1,292,671,614 |
| Total Contributions to Annuity Savings Fund | $2,354,084,062 | $2,170,883,627 |
| Pension Accumulation Fund: | | |
| Benefits currently in payment | $1,236,686,318 | $1,086,614,680 |
| Benefits to be paid to current active members | 2,798,479,272 | 2,567,046,175 |
| Reserve for increases in retirement allowances effective July 1, 1993 (July 1, 1992, for December 31, 1991, figure) | 20,460,378 | 60,372,545 |
| Reserve from undistributed gains | 79,027,538 | 53,802,952 |
| Total Benefits Payable from Pension Accumulation Fund | $4,134,653,506 | $3,767,836,352 |
| Total Liabilities | $6,488,737,568 | $5,938,719,979 |

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# VALUATION BALANCE SHEET
# SHOWING THE ASSETS AND LIABILITIES OF THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM OF NORTH CAROLINA

| ASSETS | December 31, 1992 | December 31, 1991 |
|---|---|---|
| Current assets: | | |
| Annuity Savings Fund | $ 16,810,523 | $ 14,920,233 |
| Pension Accumulation Fund | 108,993,220 | 98,762,747 |
| **Total Current Assets** | $125,803,743 | $113,682,980 |
| Future member contributions to Annuity Savings Fund | $ 24,014,343 | $ 24,577,400 |
| Prospective contributions to Pension Accumulation Fund: | | |
| Normal contributions | $ 58,490,104 | $ 60,163,015 |
| Accrued liability contributions | 13,030,708 | 19,915,035 |
| Undistributed gain contributions | 7,936,703 | 4,643,558 |
| **Total Prospective Contributions** | $ 79,457,515 | $ 84,721,608 |
| **Total Assets** | $229,275,601 | $222,981,988 |

| LIABILITIES | December 31, 1992 | December 31, 1991 |
|---|---|---|
| Annuity Savings Fund: | | |
| Past member contributions | $16,810,523 | $ 14,920,233 |
| Future member contributions | 24,014,343 | 24,577,400 |
| **Total Contributions to Annuity Savings Fund** | $ 40,824,866 | $ 39,497,633 |
| Pension Accumulation Fund: | | |
| Benefits currently in payment | $ 54,887,153 | $ 55,100,201 |
| Benefits to be paid to current active members | 124,676,479 | 122,843,596 |
| Reserve for increases in retirement allowances effective July 1, 1993 (July 1, 1992, for December 31, 1991, figure) | 950,400 | 897,000 |
| Reserve from undistributed gains | 7,936,703 | 4,643,558 |
| **Total Benefits Payable from Pension Accumulation Fund** | $188,450,735 | $183,484,355 |
| **Total Liabilities** | $229,275,601 | $222,981,988 |

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# VALUATION BALANCE SHEET
# SHOWING THE ASSETS AND LIABILITIES OF THE NORTH CAROLINA FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND

| ASSETS | FIREMEN | RESCUE SQUAD WORKERS |
|---|---|---|
| Current assets: | | |
| Annuity Savings Fund | $ 11,507,798 | $ 1,175,767 |
| Pension Accumulation Fund | 66,526,076 | 8,055,321 |
| **Total Current Assets** | $ 78,033,874 | $ 9,231,088 |
| Future member contributions to Annuity Savings Fund | $ 8,326,145 | $ 915,656 |
| Prospective contributions to Pension Accumulation Fund: | | |
| Normal contributions | $ 16,268,641 | $ 1,728,329 |
| Accrued liability contributions | 17,637,942 | 1,152,424 |
| **Total Prospective Contributions** | $ 33,906,583 | $ 2,880,753 |
| **Total Assets** | $120,266,602 | $13,027,497 |
| **LIABILITIES** | | |
| Annuity Savings Fund: | | |
| Past member contributions | $ 11,507,798 | $ 1,175,767 |
| Future member contributions | 8,326,145 | 915,656 |
| **Total Contributions to Annuity Savings Fund** | $ 19,833,943 | $ 2,091,423 |
| Pension Accumulation Fund: | | |
| Benefits currently in payment | $ 52,118,913 | $ 5,295,667 |
| Benefits to be paid to current active members | 48,313,746 | 5,640,407 |
| **Total Benefits Payable from Pension Accumulation Fund** | $100,432,659 | $10,936,074 |
| **Total Liabilities** | $120,266,602 | $13,027,497 |

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OF STATE TREASURER

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